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RESORTS, INC.

ANNUAL REPORT 2004

*New at Atlantis Casino Resort Spa in 2004*



*Redecorated Penthouse Suite*



*New Fountain Park*



*Nex Gen system installed  
on Casino Floor*

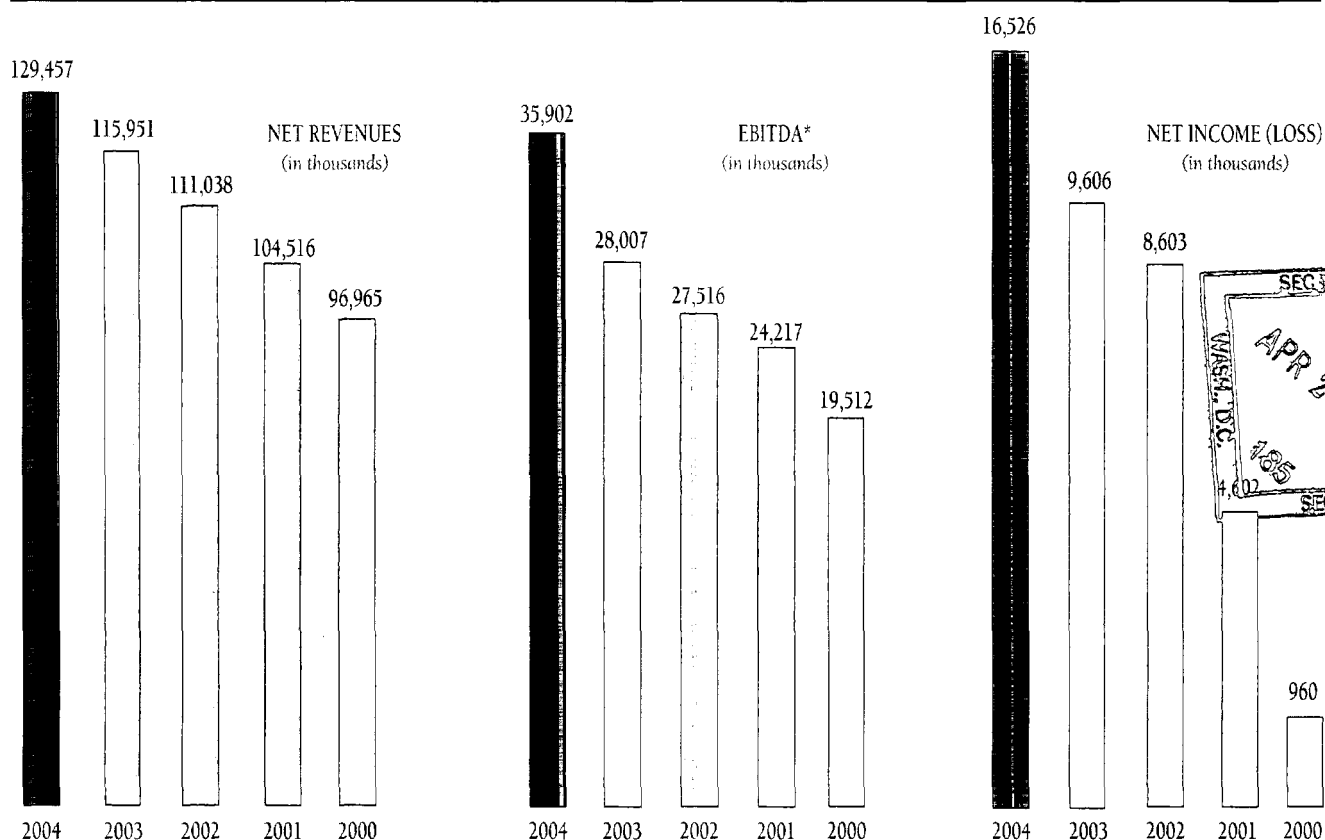


*Five Tier Player's Club  
Introduced*

## Company Highlights

	2004	2003	2002	2001	2000
<b>FINANCIAL INFORMATION</b>					
(Dollars in thousands, except per share amounts)					
Casino Revenues	<b>\$84,132</b>	\$74,956	\$70,773	\$64,908	\$59,422
Net Revenues	<b>129,457</b>	115,951	111,038	104,516	96,965
EBITDA*	<b>35,902</b>	28,007	27,516	24,217	19,512
Income from Operations	<b>26,274</b>	17,209	17,196	14,132	9,550
Net Income	<b>16,526</b>	9,606	8,603	4,602	960
Per Share					
Net Income Diluted	<b>\$1.76</b>	\$1.02	\$0.90	\$0.49	\$0.10
Weighted Average Common Shares Outstanding-Diluted	<b>9,407</b>	9,412	9,521	9,480	9,477
Total Assets	<b>\$118,339</b>	\$115,877	\$117,480	\$121,064	\$126,391
Long-Term Debt	<b>32,400</b>	47,185	52,000	64,237	73,481
Stockholders' Equity	<b>65,763</b>	48,723	40,301	31,430	26,829

\*EBITDA consists of income from operations plus depreciation and amortization.



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# TO OUR STOCKHOLDERS:

The year 2004 brought tremendous success to Monarch, both in terms of our financial statements and in our market capitalization. In June and September, we achieved and reported consecutive all-time record quarters. Also during 2004, we continued to renovate and upgrade portions of our hotel and casino while aggressively continuing to pay down our bank debt. Monarch stockholders were rewarded for their investment in the Company when the financial markets took notice of our record growth, strong balance sheet and sustained free cash flow. The result was an almost 400% increase in our stock price during 2004, to an all-time high of over \$42 per share in December.

In 2004, our gross revenues increased 11% over the previous year, driven by increases in each of our three primary revenue centers: casino, food and beverage and hotel. Promotional allowances increased 8% year over year, resulting in a 12% increase in net revenues. This means that for every dollar we spent on complimentary, we generated more than \$9 of additional net revenue. Furthermore, our hands-on management style, which emphasizes meticulous attention to detail and cost control, has led to improved margins. Our departmental costs and expenses increased only 6% and we benefited from fully depreciated assets which reduced our depreciation expense by almost 11%. All of these factors combined resulted in a 67% flow through of incremental net revenue to income from operations. In addition, we paid down \$14.6 million of our bank debt during 2004, which reduced our interest expense for the year by 10%. Our bottom line saw a 72% increase in net income to \$16.5 million, or \$1.76 per diluted share, easily beating our all-time company record of \$9.6 million, or \$1.02 per diluted share. Meanwhile, in EBITDA, probably the most closely watched financial measure of companies in our industry, we generated \$35.9 million in cash flow, or a 28% improvement over 2003.

We achieved these record results despite a tight gaming market in Reno that, by the end of 2004, was beginning to show signs of recovery. The local population continued rapid growth of 2.5% in 2004, and in South Reno, where the Atlantis is located, the population is growing at an annual rate of 8.3%. The Reno-Sparks Convention Center next door saw increased visitation during the year, which generated mid-week occupancy for us and other properties.

We believe Atlantis' success in attracting new and repeat business is due in large part to our continuing efforts to maintain and upgrade our property, amenities and services. In 2004, we spent almost \$10 million in capital expenditures, consisting primarily of renovations to our second hotel tower rooms and suites, the construction of a new driveway and entrance to the property and the acquisition and upgrading of our gaming equipment. We remain committed to continuous renewal of the Atlantis facilities, enabling us to present a consistent, fresh product and the amenities that appeal to our guests.

On March 31, 2005, our common stock began trading on a 2-for-1 split adjusted basis. The split increased the number of shares outstanding and, hopefully, will attract new investors to our growing company. We feel this was an appropriate time to increase our public float following the recent surge of interest in our company. The fourth quarter of 2004 saw unprecedented interest and growth in our common stock, which was a just and well-deserved reward to all of you who believed in the Company and its ability to produce.

In 2005 and beyond, we will continue our efforts to sustain growth and seek out opportunities for expansion. We are in the process of applying for a master plan and zoning change for a parcel of land in South Reno for possible development of a new hotel casino.

Finally, I would like to express my whole-hearted appreciation to our team members, management and our Board of Directors whose tireless efforts were instrumental to our success in 2004.

**JOHN FARAH**

*Co-chairman & CEO*

*April 1, 2005*

## OUR BUSINESS

Monarch Casino & Resort, Inc. (the "Company" or "we"), through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ("Golden Road"), owns and operates the tropically-themed Atlantis Casino Resort, a hotel/casino facility in Reno, Nevada (the "Atlantis"). Unless otherwise indicated, "Monarch" or the "Company" refers to Monarch Casino & Resort, Inc. and its Golden Road subsidiary. Monarch was incorporated in 1993 under Nevada law for the purpose of acquiring all of the stock of Golden Road. The principal asset of Monarch is the stock of Golden Road, which holds all of the assets of the Atlantis. Our principal executive offices are located at 1175 West Moana Lane, Suite 200, Reno, Nevada 89509, telephone (775) 825-3355.

### Available Information

Our website address is [www.monarchcasino.com](http://www.monarchcasino.com). We make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

### The Atlantis Casino Resort

Through our Golden Road subsidiary, we own and operate the tropically-themed Atlantis Casino Resort, which is located approximately three miles south of downtown in the generally more affluent and rapidly growing south area of Reno, Nevada. The Atlantis features approximately 51,000 square feet of casino space interspersed with waterfalls, giant artificial palm trees, thatched-roof huts, and other tropical decor; a hotel and a motor lodge with 975 guest rooms; nine food outlets; an enclosed pool with waterfall; an outdoor pool; a health spa; two retail outlets offering clothing and traditional gift shop merchandise; a full service salon for men and women; an 8,000 square-foot family entertainment center; and approximately 25,000 square feet of banquet, convention and meeting room space.

The Reno-Sparks Convention Center is located across the street from the Atlantis, the only hotel-casino within easy walking distance. The Reno-Sparks Convention Center underwent a \$105 million expansion and renovation completed in late July 2002 that increased its exhibition, meeting room, ballroom, and lobby space by more than 50%, from approximately 380,000 to approximately 570,000 square feet.

### Atlantis Casino

The Atlantis casino offers approximately 1,450 slot and video poker machines; approximately 38 table games, including blackjack, craps, roulette and others; a sports book (which is operated by an unaffiliated party pursuant to a lease arrangement with us); Keno; and a poker room.

The following table summarizes the components of our casino revenues for the periods shown:

	Years ended December 31,		
	2004	2003	2002
Slot & video poker	79.7%	78.2%	74.8%
Table games	17.5%	18.8%	22.5%
Keno, poker room and sports book rent	2.8%	3.0%	2.7%

The Atlantis offers what we believe are higher than average payout rates on slot machines relative to other northern Nevada casinos and has adopted liberal rules for its blackjack games, including the use of single decks of cards at some tables and allowing players to "double down" on the first two cards. We seek to attract high-end players through high quality amenities and services and by extension of gaming credit after a careful credit history evaluation.

## Hotel And Motor Lodge

The Atlantis includes three contiguous high-rise hotel towers with 826 rooms and suites, and a low-rise motor lodge with another 149 rooms, for a total of 975 guest rooms. The first of the three hotel towers, which was completed in April 1991, contains 160 rooms and suites in 13 stories, and underwent a \$2.8 million complete interior renovation completed early in the third quarter of 2002. The 19-story second hotel tower was completed in September 1994 and underwent a \$3.8 million complete interior renovation that was completed in March 2004. As part of the renovation, certain suites were expanded and, as a result, five regular hotel rooms were eliminated. The second hotel tower now contains 278 rooms and suites from 283 rooms and suites prior to the renovation. The third tower was completed in June 1999 and contains 388 rooms and suites in 28 stories. The rooms on the top seven floors in the newest tower are nearly 20% larger than the standard guest rooms and offer private elevator access, upscale accommodations, and a private concierge service.

The Atlantis hotel rooms feature upbeat, colorful interior decorations and furnishings consistent with the Atlantis' tropical theme, as well as nine-foot ceilings (most standard hotel rooms have eight-foot ceilings), which create an open and spacious feel. The newest hotel tower features a four-story waterfall with an adjacent swimming pool in a climate controlled, five-story glass enclosure, which shares an outdoor third floor pool deck with an outdoor swimming pool and whirlpool. A full service salon (the "Salon at Atlantis") overlooks the third floor sundeck and outdoor seasonal swimming pool and offers products and treatments for hair, nails, skincare and body services for both men and women. A health spa is located adjacent to the swimming areas. The hotel also features glass elevators rising the full 19 and 28 stories, respectively, of the two taller hotel towers, providing panoramic views of the Reno area and the Sierra Nevadas, a mountain range separating Nevada from California.

The 149-room motor lodge is a two-story structure located adjacent to the hotel. The motor lodge rooms, which are also decorated and furnished in a manner consistent with the Atlantis' tropical theme, are smaller than the tower hotel rooms and have standard eight-foot ceilings. We believe the motor lodge rooms appeal to value conscious travelers who still want to enjoy the experience and amenities of a first-class hotel-casino resort.

The average occupancy rate and average daily room rate at the Atlantis for the following periods were:

	Years ended December 31,		
	2004	2003	2002
Occupancy rate	93.6%	92.3%	92.9%
Average daily room rate	\$64.16	\$57.82	\$55.29

We continually monitor and adjust hotel room rates based upon demand and other competitive factors. Our Average Daily Room Rate ("ADR") has also been impacted by rooms sold at discounted rates to select wholesale operators for tour and travel packages.

## Restaurants And Dining

The Atlantis has seven restaurants, one snack bar, and one gourmet coffee bar, as described below.

- The 600-seat Toucan Charlie's Buffet & Grill, which offers a wide variety of standard hot food selections, salads and seafood; specialty substations featuring made-to-order items, such as Mongolian barbecue, fresh Southwest and Asian specialties, and meats roasted in wood-fired rotisserie ovens; and two salad stations
- The 135-seat, aquatic-themed Atlantis Seafood Steakhouse gourmet restaurant
- The 200-seat, upscale MonteVigna Italian Ristorante, featuring a centrally located wine cellar
- The Oyster Bar restaurant in the Sky Terrace offering fresh seafood, soups and bisques made to order
- The Sushi Bar, also in the Sky Terrace, offering a variety of fresh raw and cooked sushi specialties, including all-you-can-eat lunch and dinner menus. Combined, the Oyster Bar and Sushi Bar can accommodate up to 120 guests
- The 178-seat 24-hour Purple Parrot coffee shop
- The 104-seat Cafe Alfresco restaurant serving pizzas prepared in a wood-fired, brick oven
- A gourmet coffee bar, offering specialty coffee drinks and pastries and desserts made fresh daily in the Atlantis bakery
- A snack bar and soda fountain serving ice cream and arcade-style refreshments

## The Sky Terrace

The Sky Terrace is a unique structure with a diamond-shaped, blue glass body suspended approximately 55 feet above street level and spanning 160 feet across South Virginia Street. The Sky Terrace connects the Atlantis with additional parking on a 16-acre site owned by us across South Virginia Street from the Atlantis. The structure rests at each end on two 100-foot tall Grecian columns with no intermediate support pillars. The tropically-themed interior of the Sky Terrace contains the Oyster Bar, a video poker bar, banks of slot machines, a lounge area with oversized leather sofas and chairs and, since May 2003, a sushi bar. The Sushi Bar replaced the coffee and pastry bar that was previously located adjacent to the lounge area.

Operations at the Atlantis are conducted 24 hours a day, every day of the year. The Atlantis' business is moderately seasonal in nature, with higher revenues during the summer months and lower revenues during the winter months.

## Atlantis Improvements

We have continuously invested in upgrading the Atlantis. Our capital expenditures at the Atlantis were \$9.7 million in 2004, \$8.4 million in 2003, and \$6.5 million in 2002. A summary of capital expenditures for the last three years is as follows (in millions):

	2004	2003	2002
Cash acquisitions of property and equipment	\$9.1	\$8.0	\$4.8
Property and equipment acquired through trade payables	-	-	0.1
Financed purchases of property and equipment	0.6	0.4	1.6
Total capital expenditures	<u>\$9.7</u>	<u>\$8.4</u>	<u>\$6.5</u>

During 2004, capital expenditures consisted primarily of renovations to our second tower hotel rooms and suites, the installation of a new slot player tracking system, \$1.35 million in leased driveway improvements and continued acquisitions of and upgrades to gaming equipment. During 2003, capital expenditures consisted primarily of the construction and opening of the new Sushi Bar and the Salon at Atlantis, renovations to the second hotel tower, and continued acquisitions of and upgrades to gaming equipment. During 2002, capital expenditures consisted primarily of renovations to the first hotel tower, renovations and upgrade to the hotel front desk and VIP services area, a total renovation of the Cafe Alfresco, and continued acquisitions of and upgrades to gaming equipment.

In 2004, we constructed a new driveway that is being shared between the Atlantis and the adjacent Sierra Marketplace Shopping Center (the "Shopping Center") that is owned and controlled by affiliates of our controlling stockholders. A new traffic signal was erected at mid-block on South Virginia Street, serving the new driveway. As part of this project, we are leasing a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. We also use part of the common area of the Shopping Center and pay our proportional share of the common area expense of the Shopping Center. We have the option to renew the lease for 3 five-year terms, and at the end of the extension period, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on a MAI Appraisal. We use the leased space for pedestrian and vehicle access to the Atlantis, and we have use of a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million (see CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS in the Company's Proxy Statement in connection with the Annual Meeting of Stockholders to be held on May 26, 2005). The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time (see "Property and Equipment" in Notes to Consolidated Financial Statements – Note 1. Summary of Significant Accounting Policies").

We remain committed to implementing renovations and upgrades and will consider all capital expenditure projects proposed by our executive officers and key employees.

## Expansion Potential

Our expansion potential at the current site is twofold. First, we could expand our existing hotel and casino, thereby giving us more hotel rooms, amenities and more room for additional slot machines. Second, we could expand by developing the 16-acre parcel that we own across the street from the Atlantis. This site is connected to the Atlantis by the Sky Terrace and is currently used for parking and special events related to the Atlantis. Our 16-acre parcel meets all current Reno zoning requirements in the event we decide to build another resort casino or entertainment facility. We currently have no plans for the expansion or development of either site, but we constantly monitor industry demands and prudent development opportunities for our property.

In 2003, we entered into an option agreement with an affiliate of our controlling stockholders to purchase property in South Reno for development of a new hotel casino. This property is located approximately 3.5 miles south of the Atlantis. Commencement of any development of the property will require completion of property due diligence and receipt of numerous approvals, including master plan changes and zoning changes, neither of which can be assured. Through the current property owner, we have filed an application with the City of Reno for master plan change and zoning change for 13 acres of the property. On January 20, 2005, the City of Reno Planning Commission approved our application for master plan and zoning change on the property. The Reno City Council and regional governing authorities must next approve the application.

## Marketing Strategy

Our revenues and operating income are principally dependent on the level of gaming activity at the Atlantis casino. Our predominant marketing goal is to utilize all of the Atlantis facilities to generate additional casino play. Our secondary goal is to maximize revenues from our hotel, restaurants, cocktail lounges, convention and meeting rooms and other amenities.

Our marketing efforts are directed toward three broad consumer groups: Reno area residents, leisure travelers, and conventioners. We believe the Atlantis' location outside the downtown area, near the airport and across the street from the Reno-Sparks Convention Center makes the facility appealing to all three groups.

**RENO AREA RESIDENTS.** The Atlantis' proximity to rapidly growing, generally more affluent, south Reno residential areas provides a significant source of middle to upper-middle income gaming customers. We market to Reno area residents (referred to from time to time as "Locals") on the basis of the Atlantis location and accessibility, convenient surface parking, gaming values, ambiance, friendly efficient service, and quality and relative value of its food and beverage offerings, entertainment, and promotions.

We believe local gaming customers prefer slot and video poker machines to table games, and prefer video poker machines to reel-spinning (or electronically simulated reel-spinning) slot machines. Accordingly, the Atlantis provides a diverse selection of video poker machines. Moreover, we believe that Reno area residents seek out and frequent casinos with higher payout rates on slot and video poker machines and more liberal rules on table games relative to other northern Nevada casinos. We believe the Atlantis offers higher than average payout rates on slot machines, and we have adopted liberal rules for its blackjack games, including the use of single decks of cards at some tables and allowing players to "double down" on the first two cards. We have also implemented "Club Paradise," a frequent player club, to encourage Locals' repeat play at our casino.

**LEISURE TRAVELERS.** Reno is a popular gaming and vacation destination that enjoys direct freeway access to nearly all major northern California population centers and non-stop air service from most large cities in the western United States, as well as many midwest and southern population centers such as Chicago, Minneapolis, Dallas and Atlanta. The principal segments of Reno's leisure traveler market are independent travelers, package tour and travel customers, and high-end players. We attempt to maximize our gaming revenues and hotel occupancy through a balanced marketing approach that addresses each market segment.

Independent travelers make reservations directly with hotels of their choice or through independent travel agents. We believe this market segment is largely comprised of individuals who drive and, to a lesser extent, fly to Reno from a specific region, primarily northern California and the Pacific Northwest. We strive to attract the middle to upper-middle income strata of this consumer segment through advertising and direct marketing in select regions. This segment represents a significant portion of the Atlantis' customers, especially those visiting on weekends.



The package tour and travel segment consists of visitors who utilize travel packages offered by wholesale operators. We market to this segment through relationships with select wholesalers, primarily to generate customer visits and supplement mid-week occupancy.

We welcome direct on-line reservations on the Atlantis' website (<http://www.atlantiscasino.com>). We are also featured on major package tour and travel websites.

We market to high-end players selectively through direct sales. We utilize complimentary rooms, food and beverage, special events and the extension of gaming credit to attract high-end players.

**CONVENTIONEERS.** Convention business, like package tour and travel, generates mid-week customer visits and supplements occupancy during low-demand periods. Conventioneers also typically pay higher average room rates than non-conventioneers. We selectively seek convention and meeting groups that we believe will materially enhance the Atlantis' occupancy and daily room rates, as well as those we believe will be more likely to gamble. As the only hotel-casino within easy walking distance of the Reno-Sparks Convention Center, the Atlantis is, in our view, uniquely positioned to capitalize on this expanding segment. We believe the \$105 million expansion and remodeling of the Reno-Sparks Convention Center, completed in late July 2002, has created and we expect will continue to create additional customer traffic for the Atlantis from a market segment that is presently underserved in the Reno area.

We market to all customer segments, including conventioneers, on the basis of the location, quality and ambiance of the Atlantis facility, gaming values, friendly efficient service, and the quality and relative value of its rooms, food and beverage offerings, entertainment, and promotions.

Our frequent player club, "Club Paradise," allows our customers to be eligible to receive rewards and privileges based on the amount of their play, while allowing us to track their play through a computerized system. We use this information to determine appropriate levels of complimentary awards, and in our direct marketing efforts. We believe that Club Paradise significantly enhances our ability to build customer loyalty and generate repeat customer visits.

## **Competition**

Competition in the Reno area gaming market is intense. Based on information obtained from the December 31, 2004 Gaming Revenue Report published by the Nevada State Gaming Control Board, there are approximately 12 casinos in the Reno area which generate more than \$12.0 million each in annual gaming revenues.

We believe that the Atlantis' competition for Locals comes primarily from other large-scale casinos located outside of downtown Reno that offer amenities that appeal to middle to upper-middle income customers, and secondarily with those casinos located in downtown Reno that offer similar amenities. We compete for Locals primarily on the basis of the desirability of our location, the quality and ambiance of the Atlantis facility, friendly efficient service, the quality and relative value of its food and beverage offerings, entertainment offerings, promotions, and gaming values. We believe the Atlantis' proximity to residential areas in south Reno and its abundant surface parking afford it an advantage over the casinos located in downtown Reno in attracting Locals.

We believe that the Atlantis' primary competition for leisure travelers comes from other large-scale casinos, including those located in downtown Reno and those located away from downtown Reno, that offer amenities that appeal to middle to upper-middle income customers. We compete for leisure travelers on the basis of the desirability of our location, the quality and ambiance of the Atlantis facility, friendly efficient service, the quality and relative value of its rooms and food and beverage offerings, entertainment offerings, promotions, and gaming values. We believe that our location away from downtown Reno is appealing to many customers who prefer to avoid the more congested downtown area; however, the Atlantis' location is a disadvantage in that it does not afford us the ability to generate walk-in traffic (except with respect to persons attending events at the Convention Center), which is a significant source of customers for some casinos located in downtown Reno.

We believe that the Atlantis' primary competition for conventioneers comes from other large-scale hotel casinos in the Reno area that actively target the convention market segment, and secondarily from other cities on the U.S. West Coast with large convention facilities and substantial hotel capacity, including Las Vegas. We compete for conventioneers based on the desirability of our location, the quality and ambiance of the Atlantis facility, meeting and banquet rooms designed to appeal to conventions and groups, friendly efficient service, and the quality and relative value of its rooms and food and beverage offerings. We believe that the Atlantis' proximity to the Reno-Sparks Convention Center affords it a distinct competitive advantage in attracting conventioneers.

The Atlantis also competes for gaming customers with hotel casino operations located in other parts of Nevada, especially Las Vegas and Lake Tahoe, and with hotel casinos, Indian casinos, and riverboat casinos located elsewhere throughout the United States and the world. We believe that the Atlantis also competes to a lesser extent with state-sponsored lotteries, off-track wagering, card parlors, and other forms of legalized gaming, particularly in northern California and the Pacific Northwest.

The constitutional amendment approved by California voters in 1999 allowing the expansion of Indian casinos in California has had an impact on casino revenues in Nevada in general, and many analysts have continued to predict the impact will be more significant on the Reno-Lake Tahoe market. The extent of this continued impact is difficult to predict, but we believe that the impact on us will continue to be mitigated to some extent due to the Atlantis' emphasis on Reno area residents as a significant base of its business, as well as its proximity to the Reno-Sparks Convention Center. However, if other Reno area casinos continue to suffer business losses due to increased pressure from California Indian casinos, they may intensify their marketing efforts to Reno-area residents as well. However, we believe our numerous amenities such as a wide array of restaurants, a video arcade, banquet facilities and surface parking are a key factor in our ability to attract Locals which competitor facilities will not easily be able to match without major capital expenditures.

Certain experienced Nevada gaming operators have agreements to build and manage Indian casino facilities near San Francisco, one of Reno's key feeder markets. One major facility near Sacramento has been operating since June 2003 and has been very successful, adversely impacting many hotel casinos in Reno. Once these facilities receive all the required permits and are built, they could provide an alternative to Reno area casinos, especially during certain winter periods when auto travel through the Sierra Nevadas is hampered.

We also believe that the legalization of unlimited land-based casino gaming in or near any major metropolitan area in the Atlantis' key non-Reno marketing areas, such as San Francisco or Sacramento, could have a material adverse impact on our business.

In June 2004, five California Indian tribes signed compacts with the state that allows the tribes to increase the number of slot machines beyond the previous 2,000-per-tribe limit in exchange for higher fees from each of the five tribes. The State of California hopes to sign similar compacts with more Indian tribes.

A developer has received approval for zoning change for a 7.7 acre parcel of land within a quarter mile to the south of the Atlantis for development of a gaming property. Under certain "grandfathered" rights acquired by the developer, such developer seeks to build a casino without a resort hotel as would be required under state and local law without such grandfathered rights. We believe that permitting such developer to build a casino without the resort hotel amenities could have an adverse impact on our business and would be in conflict with the land use laws in the area surrounding the Reno-Sparks Convention Center which requires additional hotel rooms to support growth in convention business. We are diligently monitoring developments in this situation.

## **Employees**

As of March 8, 2005, we had approximately 1,784 employees. None of our employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good.

## **Legal Proceedings**

On April 26, 1994, and May 10, 1994, complaints in purported class action lawsuits (William Poulos v. Caesars World, Inc. et al., Case No.94-478-Civ-Orl-22, and William H. Ahern v. Caesars World, Inc. et al., Case No. 94-532-Civ-Orl-22, respectively) were filed in the United States District Court for the Middle District of Florida (the "Florida Complaints") and subsequently were transferred to the United States District Court for the District of Nevada, Southern Division (the "Nevada District Court"). On September 26, 1995, a complaint in a purported class action lawsuit (Larry Schrier v. Caesars World, Inc. et al., Case No. 95-923-LDG (RJJ)) was filed in Nevada District Court (along with the Florida Complaints, the "Complaints"). The Complaints allege that manufacturers, distributors and casino operators of video poker and electronic slot machines, including the Company, have engaged in a course of conduct intended to induce persons to play such games based on a false belief concerning how the gaming machines operate, as well as the extent to which there is an opportunity to win on a given play. The Complaints charge Defendants with violations of the Racketeer Influenced and Corrupt Organizations Act, as well as claims of

common law fraud, unjust enrichment and negligent misrepresentation, and seek damages in excess of \$1 billion without any substantiation of that amount. The Nevada District Court consolidated the actions (and one other action styled William Poulos v. American Family Cruise Line, NV et al., Case No. CV -S-95-936-LDG (RLH), in which the Company is not a named defendant). The Plaintiffs moved to certify two classes of plaintiffs, essentially encompassing all persons in the U.S. who have played one or more of the defendants' video poker or electronic slot machines in the prior ten years. That motion was opposed by the defendants and subsequently, the court ruled in favor of the defendants and denied the class certification motion. That ruling was upheld on appeal. As a result, the named plaintiffs, Poulos, McElmore and Schreier must proceed on behalf of themselves, not a class. The plaintiffs have admitted that they, personally, did not gamble in all of the establishments owned by entities named as defendants in the suit, and have offered to dismiss those defendants associated with casinos at which they did not personally gamble. Monarch is included within the group of defendants to which dismissal has been offered. Presently, Monarch is in the process of securing its dismissal with prejudice. Monarch expects to obtain a final order of dismissal by mid 2005. Monarch does not expect any material costs and/or attorney's fees to be expended upon this lawsuit through the dismissal process.

We are party to other claims that arise in the normal course of business. Management believes that the outcomes of such claims will not have a material adverse impact on our financial condition, cash flows, or results of operations.

## **OUR PROPERTIES**

Our properties consist of:

(a) The approximately 13-acre site in Reno, Nevada on which the Atlantis is situated, including the hotel towers, casino, restaurant facilities and surrounding parking is, in part or in whole, held subject to a trust deed encumbrance in favor of financial institutions totaling approximately \$25.7 million as of March 8, 2005.

(b) An approximately 16-acre site adjacent to the Atlantis and connected to the Atlantis by the Sky Terrace, which includes approximately 11 acres of paved parking used for customer, employee and valet parking. The remainder of the site is undeveloped. This site is compliant with all casino zoning requirements and is suitable and available for future expansion of the Atlantis facilities, parking, or complementary resort casino and/or entertainment amenities. We have not determined the ultimate use of this site. These 16 acres are also held subject to the trust deed encumbrance described in paragraph (a) above.

(c) A 37,368 square-foot leased land next door to the Atlantis serving as a driveway entrance since September 30, 2004.

(d) A purchase option on a parcel of land in South Reno for possible development of a new hotel casino. In 2003, we entered into an option agreement with an affiliate of our controlling stockholders to purchase the property in South Reno. This property is located approximately 3.5 miles south of the Atlantis. Commencement of any development of the property will require completion of property due diligence and receipt of numerous approvals, including master plan changes and zoning changes, neither of which can be assured. Through the current property owner, we have filed an application with the City of Reno for master plan change and zoning change for 13 acres of the property. On January 20, 2005, the City of Reno Planning Commission approved our application for master plan and zoning change on the property. The Reno City Council and regional governing authorities must next approve the application.

## OUR COMMON STOCK

Our common stock trades on The Nasdaq Stock Market(SM) under the symbol MCRI. The following table sets forth the high and low bid prices of our common stock, as reported by The Nasdaq Stock Market(SM), during the periods indicated.

	2004		2003	
	High	Low	High	Low
First quarter	\$14.900	\$10.750	\$13.450	\$ 7.710
Second quarter	\$15.750	\$13.050	\$ 9.540	\$ 7.490
Third quarter	\$19.340	\$12.950	\$11.310	\$ 8.900
Fourth quarter	\$43.890	\$18.820	\$11.530	\$ 9.380

As of March 7, 2005, there were approximately 90 holders of record of our common stock, and approximately 984 beneficial stockholders.

We have never paid dividends. We presently intend to retain earnings and use free cash to finance our operating activities, for maintenance capital expenditures and to reduce debt. We do not anticipate declaring cash dividends in the foreseeable future. Our bank loan agreement also contains provisions that require the achievement of certain financial ratios before we can pay or declare dividends to our stockholders. See "FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 5."

*Securities Authorized for Issuance Under Equity Compensation Plans.* See Security Ownership of Management and Certain Other Beneficial Owners.

On March 10, 2003, we announced a plan to repurchase up to 250,000 shares, or 2.6%, of our common stock in open market transactions. The repurchases may be made from time to time depending on market conditions and availability of funds. The repurchases are to be made with our cash (see our Current Report filed on Form 8-K dated March 10, 2003). We did not purchase any shares of our common stock pursuant to this stock repurchase program during 2004. During 2003, we purchased 180,000 shares of our common stock pursuant to this stock repurchase program. Our bank loan agreement requires achievement of certain financial ratios before we can repurchase our common stock.

# OUR FINANCIAL INFORMATION

	Years ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands except per share amounts)				
<b>Operating Results</b>					
Casino revenues	\$84,132	\$74,956	\$70,773	\$64,908	\$59,373
Other revenues	65,545	59,741	57,641	54,461	51,713
Gross revenues	149,677	134,697	128,414	119,369	111,086
Promotional allowances	(20,220)	(18,746)	(17,376)	(14,853)	(14,170)
Net revenues	129,457	115,951	111,038	104,516	96,916
Income from operations	(1) 26,274	(2) 17,209	(3) 17,196	(4) 14,132	(5) 9,550
Income before income tax	24,689	14,572	13,033	6,888	1,386
Net income	\$16,526	\$ 9,606	\$ 8,603	\$ 4,602	\$ 960
<b>Income per share of common stock</b>					
Net income					
Basic	\$1.76	\$1.02	\$0.91	\$0.49	\$0.10
Diluted	\$1.76	\$1.02	\$0.90	\$0.49	\$0.10
Weighted average number of common shares and potential common shares outstanding					
Basic	9,378	9,379	9,458	9,436	9,436
Diluted	9,407	9,412	9,521	9,480	9,477
<b>Other Data</b>					
Depreciation and amortization	\$ 9,628	\$10,797	\$10,320	\$10,085	\$10,101
Interest expense, net	\$1,584	\$2,638	\$3,934	\$7,243	\$8,165
Capital expenditures (6)	\$9,710	\$8,406	\$6,534	\$4,488	\$3,866
<b>Balance Sheet Data</b>					
Total assets	\$118,339	\$115,877	\$117,480	\$121,064	\$126,391
Current maturities of long-term debt	-	\$6,060	\$8,279	\$8,106	\$7,538
Long-term debt, less current maturities	\$32,400	\$41,125	\$52,000	\$64,237	\$73,481
Stockholders' equity (7)	\$65,763	\$48,723	\$40,301	\$31,430	\$26,829

(1) 2004 includes a \$173,000 loss on disposal of fixed assets.

(2) 2003 includes a \$133,000 gain on disposal of fixed assets.

(3) 2002 includes a \$35,000 gain on disposal of fixed assets.

(4) 2001 includes a \$25,000 gain on disposal of fixed assets.

(5) 2000 includes a \$139,000 gain on disposal of fixed assets.

(6) Includes amounts financed with debt or capitalized lease obligations.

(7) We paid no dividends during the five year period ended December 31, 2004.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Monarch Casino & Resort, Inc., through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ("Golden Road"), owns and operates the tropically-themed Atlantis Casino Resort, a hotel/casino facility in Reno, Nevada (the "Atlantis"). Monarch was incorporated in 1993 under Nevada law for the purpose of acquiring all of the stock of Golden Road. The principal asset of Monarch is the stock of Golden Road, which holds all of the assets of the Atlantis.

Our sole operating asset, the Atlantis, is a hotel/casino resort located in Reno, Nevada. Our business strategy is to maximize the Atlantis' revenues, operating income and cash flow primarily through our casino, our food and beverage operations and our hotel operations. We derive our revenues by appealing to middle to upper-middle income Reno residents, emphasizing slot machine play in our casino. We capitalize on the Atlantis' location

for locals, tour and travel visitors and conventioners by offering exceptional service, value and an appealing theme to our guests. Our hands-on management style focuses on customer service and cost efficiencies.

Unless otherwise indicated, "Monarch," "Company," "we," "our" and "us" refer to Monarch Casino & Resort, Inc. and its Golden Road subsidiary.

## Operating Results Summary

During 2004, we exceeded all previously reported Company annual casino revenues, hotel revenues, net revenues, net income and earnings per share.

(In millions, except earnings per share)

	2004	2003	2002	Percentage Increase / (Decrease)	
				'04 vs. '03	'03 vs. '02
Casino revenues	\$84.1	\$75.0	\$70.8	12.2%	5.9%
Food and beverage revenues	37.3	34.5	33.6	8.2%	2.5%
Hotel revenues	24.3	21.2	20.3	14.5%	4.6%
Other revenues	3.9	4.0	3.7	(2.8)%	8.5%
Net revenues	129.5	116.0	111.0	11.6%	4.4%
Income from operations	26.3	17.2	17.2	52.7%	0.1%
Net income	16.5	9.6	8.6	72.0%	11.7%
Earnings per share – diluted	1.76	1.02	0.90	72.5%	13.3%
Operating margin	20.3%	14.8%	15.5%	5.5 pts	(0.7) pts

Net revenues in 2004 increased 11.6% over 2003 due to increases in our top three revenue segments: casino, food and beverage and hotel revenues, which increased 12.2%, 8.2% and 14.5%, respectively, over 2003. These increases were partially offset by a 2.8% decrease in other revenues in 2004 compared to 2003.

We attribute our improved results to our experienced management team, the superb location of the Atlantis in the more affluent and growing south part of Reno, the quality of our product that drives repeat business, our focus on marketing primarily to Reno-area residents, and our steadily declining interest expense resulting from overall reductions in our outstanding debt which were partially offset by slightly higher prevailing interest rates.

In 2004, our income from operations increased 52.7% over 2003, while our net income and earnings per diluted share increased 72.0% and 72.5%, respectively.

Some significant items that affected our 2004 results are listed below. These items are discussed in greater detail elsewhere in our discussion of operating results and in the Liquidity and Capital Resources section.

- Gross revenues grew 11.1% in 2004 as compared to 2003 while promotional allowances increased only 7.9%. This led to a net revenues increase of 11.6%.
- Operating costs and expenses increased only 4.5% leading to improved margins in our casino, food and beverage and hotel revenue centers as well as a 67.1% flow through of incremental net revenue to income from operations.
- Depreciation expense in 2004 decreased approximately \$1.2 million, or 10.8%, due to the fact that previously capitalized assets have become fully depreciated.
- The increase in net revenues, together with the smaller increase in operating costs and expenses and the large decrease in depreciation expense translated into a 52.7% increase in income from operations.
- Interest and stockholder guarantee fee expenses decreased 39.9% in 2004 compared to 2003 due to continuously decreasing outstanding debt and the elimination of stockholder guarantee fees from the

refinancing of our credit facility in February 2004. These decreases were partially offset by slightly higher prevailing interest rates.

### **Capital Spending And Development**

We seek to continuously upgrade and maintain the Atlantis in order to present a fresh product to our guests and to maintain high quality standards.

Capital expenditures at the Atlantis (including non-cash capital expenditures) totaled approximately \$9.7 million, \$8.4 million and \$6.5 million in 2004, 2003, and 2002, respectively. Capital expenditures in 2004 consisted primarily of renovations to our second tower hotel rooms and suites, the installation of a new slot player tracking system, \$1.35 million in leased driveway improvements and continued acquisitions of and upgrades to gaming equipment. Capital expenditures in 2003 consisted primarily of the May 2003 opening of the Sushi Bar, the construction and November 2003 opening of the Salon at Atlantis, November 2003 commencement of the second hotel tower room upgrades and renovation, the acquisition of a new player tracking and slot accounting system installed and operational by January 2004, continued slot machine conversion to the ticket-in, ticket-out coinless slot system, and continued acquisition of and upgrades to gaming equipment. In 2002, capital expenditures consisted primarily of renovations to Atlantis' first hotel tower, renovations and upgrades to the hotel front desk and VIP services area, a total renovation of the Cafe Alfresco, and continued acquisitions of and upgrades to gaming equipment.

In 2004, a new driveway was constructed that is being shared between the Atlantis and the adjacent Sierra Marketplace Shopping Center that is owned and controlled by affiliates of our controlling stockholders (the "Shopping Center"). A new traffic signal was erected at mid-block on South Virginia Street, serving the new driveway. As part of this project, we are leasing a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. We are also using part of the common area of the Shopping Center and pay our proportional share of the common area expense of the Shopping Center. We have the option to renew the lease for 3 five-year terms, and at the end of the extension period, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on a MAI Appraisal. We use the leased space for pedestrian and vehicle access to the Atlantis, and we have use of a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million. This project was completed, the driveway was put into use and we began paying rent on September 30, 2004 (see CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS in the Company's Proxy Statement in connection with the Annual Meeting of Stockholders to be held on May 26, 2005). The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time (see "Property and Equipment" in Notes to Consolidated Financial Statements – Note 1. Summary of Significant Accounting Policies").

Future cash needed to finance ongoing capital expenditures is expected to be made available from operating cash flow, the Credit Facility (see "FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 5.") and, if necessary, additional borrowings.

### **Statement On Forward-Looking Information**

Certain information included herein contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as statements relating to anticipated expenses, capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include, but are not limited to, those relating to competitive industry conditions, expansion of Indian casinos in California, Reno-area tourism conditions, dependence on existing management, leverage and debt service (including sensitivity to fluctuations in interest rates), the regulation of the gaming industry (including actions affecting licensing), outcome of litigation, domestic or global economic conditions including those affected by the events of September 11, 2001 and the ongoing situation in Iraq, and changes in federal or state tax laws or the administration of such laws.

## Critical Accounting Policies And Estimates

We prepare our consolidated financial statements in conformity with principles generally accepted in the United States. Certain of our policies, including the estimated lives assigned to our assets, the determination of bad debt, self insurance reserves, credit risk, and the calculation of income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on historical experience, terms of existing contracts, observations of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. To provide an understanding of the methodologies applied, our significant accounting policies are discussed where appropriate in this discussion and analysis and in the Notes to Consolidated Financial Statements.

The consolidated financial statements include the accounts of Monarch and Golden Road. Intercompany balances and transactions are eliminated.

### *Self-insurance Reserves*

The Company reviews self-insurance reserves at least quarterly. The amount of reserve is determined by reviewing the actual expenditures for the previous twelve-month period and reviewing reports prepared by the third party plan administrator for any significant unpaid claims. The reserve is accrued at an amount that approximates amounts needed to pay both reported and unreported claims as of the balance sheet date, which management believes are adequate.

### *Inventories*

Inventories, consisting primarily of food, beverages, and retail merchandise, are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

### *Advertising Costs*

All advertising costs are expensed as incurred.

### *Property and Equipment*

Property and equipment are stated at cost, less accumulated depreciation and amortization. Since inception, property and equipment have been depreciated principally on a straight line basis over the estimated service lives as follows:

Land improvements	15-40 years
Buildings	30-40 years
Building improvements	15-40 years
Furniture	5-10 years
Equipment	5-20 years

Expenditures for maintenance and repairs are expensed as incurred; expenditures for renewals and improvements are generally capitalized.

We periodically evaluate our fixed and other long-term assets for impairment to ensure that they are appropriately valued.

### *Casino Revenues*

Casino revenues represent the net win from gaming activity, which is the difference between wins and losses. Additionally, net win is reduced by a provision for anticipated payouts on slot participation fees, progressive jackpots and any pre-arranged marker discounts.

### *Promotional Allowances*

The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances.



Income taxes are recorded in accordance with the liability method specified by Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes." Under the asset and liability approach for financial accounting and reporting for income taxes, the following basic principles are applied in accounting for income taxes at the date of the financial statements: (a) a current liability or asset is recognized for the estimated taxes payable or refundable on taxes for the current year; (b) a deferred income tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards; (c) the measurement of current and deferred tax liabilities and assets is based on the provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated; and (d) the measurement of deferred income taxes is reduced, if necessary, by the amount of any tax benefits that, based upon available evidence, are not expected to be realized.

*Concentrations of Credit Risk*

Financial instruments which potentially subject us to concentrations of credit risk consist principally of bank deposits and trade receivables. We maintain our cash in bank deposit accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising our customer base. We believe we are not exposed to any significant credit risk on cash and accounts receivable.

*Stockholder Guarantee Fees*

All of our bank debt was personally guaranteed by our three largest stockholders since the inception of our original loan agreement on December 29, 1997. Effective January 1, 2001, until February 20, 2004, we compensated the guarantors at the rate of 2% per annum of the quarterly average outstanding bank debt amount. For the twelve months ended December 31, 2004, 2003, and 2002, we recorded interest expense in the amounts of approximately \$136,000, \$1.0 million, and \$1.3 million, respectively, for these guarantee fees. The individuals who guaranteed the Original Credit Facility were not required to do so for the New Credit Facility (as defined below). Therefore, we will no longer incur such guarantee fee expenses.

**Discussion Of Results Of Operations**

*2004 COMPARED WITH 2003*

For the year ended December 31, 2004, we earned net income of \$16.5 million, or \$1.76 per diluted share, on net revenues of \$129.5 million, compared to a net income of \$9.6 million, or \$1.02 per diluted share, on net revenues of \$116.0 million for the year ended December 31, 2003. Our net revenues for 2004 are the highest in our Company's history. Our income from operations totaled \$26.3 million for 2004, a 52.7% increase when compared to \$17.2 million for 2003. Net income for the year 2004 constitutes a record high for our Company. We believe the Atlantis continued to benefit in 2004 from the rapid growth occurring in the residential and commercial areas south of the Atlantis in Reno, and from the increasing popularity of the Atlantis with visitors to the Reno area.

Casino revenues totaled \$84.1 million in 2004, up 12.2% from \$75.0 million in 2003, driven by increases in slot, table game and poker game win. Revenue from slot and video poker machines ("slot machines") increased approximately 14.4% in 2004 compared to 2003. We believe that increased slot machine play was due to continued effective marketing and continuous upgrade of facilities and equipment in 2004 and 2003. Table game win increased approximately 4.2% in 2004 compared to 2003 due to a slight increase in drop and improved win percentages. Keno and poker room revenues combined increased approximately 7.8% in 2004 over 2003. Keno write increased approximately 7.6% in 2004 compared to 2003 while poker revenue increased approximately 31.4% compared to 2003 due to continued effective marketing. Casino operating expenses were 36.3% of casino revenues in 2004, an improvement from 39.1% in 2003. The improved casino margin in 2004 over 2003 was due to improved win percentages, reduced payroll and benefit costs and more efficient operations.

Food and beverage revenues increased 8.2% to \$37.3 million in 2004 from \$34.5 million in 2003, primarily due to a 4.0% increase in average revenue per cover combined with a 4.6% increase in the number of covers served. Food and beverage operating expenses decreased to 50.5% of food and beverage revenues in 2004 compared to 51.3% in 2003, due to increased revenue per cover, increased number of covers served and more efficient operations which were partially offset by a slight increase in cost of sales.

Hotel revenues totaled \$24.3 million in 2004, an increase of 14.5% from \$21.2 million in 2003. The increase reflects an increase in both the average daily occupied room rate and the occupancy rate during the twelve month period of 2004 compared to the same period in 2003. Year 2004 revenues also include a \$3.00 per occupied room energy surcharge that was also assessed during 2003. The Atlantis' average daily room rate ("ADR") was \$64.16 in 2004, compared to \$57.82 in 2003. The average occupancy rate at the Atlantis was 93.6% in 2004 compared to 92.3% in 2003. Hotel operating expenses decreased slightly to 32.3% of hotel revenues in 2004, compared to 32.9% in 2003. This decrease in operating expenses as a percentage of hotel revenues resulted primarily from increased average daily room rate.

Promotional allowances increased to \$20.2 million, or 13.5% of gross revenues, in 2004 compared to \$18.7 million, or 13.9% of gross revenues, in 2003. The dollar increase is attributable to continued efforts to generate additional revenues. The decrease in percentage of promotional allowance to gross revenues reflects efforts to ensure that promotional costs are directed toward gaming guests.

Other revenues decreased approximately 2.8% in 2004 to \$3.9 million from \$4.0 million in 2003, which is directly the result of the approximately \$173,000 loss on disposal of assets. The 2.8% overall decrease also includes a 7.2% decrease in entertainment fun center revenue which is partially offset by a 10.5% increase in gift and sundries retail shops revenue. Other expenses were approximately 34.5% of other revenues in 2004, an increase from 31.7% in 2003.

Selling, general and administrative ("SG&A") expenses totaled \$35.0 million, or 27.0% of net revenues, in 2004 compared to \$32.7 million, or 28.2% of net revenues, in 2003. The decrease in these expenses as a percentage of revenues reflects management's efforts to control expenses as revenues increase.

Depreciation and amortization expense was \$9.6 million in 2004, a decrease of 10.8% from \$10.8 million in 2003. The decrease is due to the fact that previously capitalized assets have become fully depreciated.

Interest and stockholder guarantee fee expenses for 2004 totaled approximately \$1.6 million, down 39.9% from \$2.6 million in 2003, due to lower outstanding debt which was partially offset by slightly higher prevailing interest rates. Guarantee fees paid to our three principal stockholders totaled approximately \$136,000 in 2004 and \$1.0 million in 2003. The individuals who guaranteed the Company's Original Credit Facility (defined in "The Credit Facility" below) did not provide such guarantees for the New Credit Facility (also defined in "The Credit Facility" below) and, therefore, the Company will no longer be required to pay such fees in the future. At December 31, 2004, all of our interest-bearing debt was related to a reducing revolving credit facility with floating interest rates tied to a base rate approximately equal to the prime rate or LIBOR (at our option) plus a margin which fluctuates according to our ratio of funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (See Item 8, "FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 5."). An increase in interest rates could have a material effect on our financial results.

#### *2003 COMPARED WITH 2002*

For the year ended December 31, 2003, we earned net income of \$9.6 million, or \$1.02 per diluted share, on net revenues of \$116.0 million, compared to a net income of \$8.6 million, or \$0.90 per diluted share, on net revenues of \$111.0 million for the year ended December 31, 2002. Our income from operations totaled \$17.2 million for 2003, relatively unchanged when compared to \$17.2 million for 2002. Interest and stockholder guarantee fee expenses declined 33.0% from 2002, and was a major factor in the increase in net income. We believe the Atlantis continued to benefit in 2003 from the rapid growth occurring in the residential and commercial areas south of the Atlantis in Reno, and from the increasing popularity of the Atlantis with visitors to the Reno area.

Casino revenues totaled \$75.0 million in 2003, up 5.9% from \$70.8 million in 2002, driven by increases in slot, Keno and poker game win. Revenue from slot and video poker machines ("slot machines") increased approximately 10.7% in 2003 compared to 2002. We believe that increased slot machine play was due to more effective marketing and continued upgrade of facilities and equipment in 2003 and 2002. Despite an approximate 6.5% increase in table game drop, table game win decreased approximately 11.3% in 2003 compared to 2002 due to higher than normal winnings by our guests during 2003. Keno and poker room revenues combined increased approximately 16.7% in 2003 over 2002. Keno write increased approximately 4.7% in 2003 compared to 2002 while poker revenue increased approximately 19.9% compared to 2002 due to more effective marketing. Casino operating expenses were 39.1% of casino revenues in 2003, unchanged when compared to 2002.

Food and beverage revenues increased 2.5% to \$34.5 million in 2003 from \$33.6 million in 2002, primarily due to a 0.8% increase in average revenue per cover combined with a 3.1% increase in the number of covers served. Food and beverage operating expenses decreased to 51.3% of food and beverage revenues in 2003 compared to 52.3% in 2002, due to increased revenue per cover and more efficient operations which were partially offset by a slight increase in cost of sales.

Hotel revenues totaled \$21.2 million in 2003, an increase of 4.6% from \$20.3 million in 2002. The increase reflects an increase in average daily occupied room rate partially offset by a slight decrease in occupancy rate during the twelve month period of 2003 compared to the same period in 2002. Year 2003 revenues also include a \$3.00 per occupied room energy surcharge that was also assessed during 2002. The Atlantis' average daily room rate ("ADR") was \$57.82 in 2003, compared to \$55.29 in 2002. The average occupancy rate at the Atlantis was 92.3% in 2003 compared to 92.9% in 2002. Hotel operating expenses increased slightly to 32.9% of hotel revenues in 2003, compared to 32.2% in 2002. This increase in operating expenses as a percentage of hotel revenues resulted primarily from increased employee healthcare costs.

Promotional allowances increased to \$18.7 million, or 13.9% of gross revenues, in 2003 compared to \$17.4 million, or 13.5% of gross revenues, in 2002. The increase is attributable to expanded promotional efforts to increase revenues.

Other revenues increased approximately 8.5% in 2003 to \$4.0 million from \$3.7 million in 2002, reflecting an increase in sales from both retail gift shops and a slight increase in revenue from the entertainment fun center. Other expenses were approximately 31.7% of other revenues in 2003, an improvement from 34.0% in 2002, primarily due to continued operating efficiencies of operating the two gift shops and the entertainment fun center.

Selling, general and administrative ("SG&A") expenses totaled \$32.7 million, or 28.2% of net revenues, in 2003 compared to \$30.4 million, or 27.4% of net revenues, in 2002. The increase in these expenses as a percentage of revenues reflects increased energy costs, increased marketing and promotional costs and increased employee healthcare costs. Selling, general and administrative expenses for 2003 also included costs incurred as a result of the litigation settled in early 2004 against the City of Reno and other third parties. These litigation costs were not incurred in 2002.

Depreciation and amortization expense was \$10.8 million in 2003, an increase of 4.6% from \$10.3 million in 2002.

Interest and stockholder guarantee fee expenses for 2003 totaled approximately \$2.6 million, down 33.0% from \$3.9 million in 2002, due to reduced interest rates and lower debt outstanding. Guarantee fees paid to our three principal stockholders totaled approximately \$1.0 million in 2003 and \$1.3 million in 2002. The individuals who guaranteed the Company's Original Credit Facility (defined in "The Credit Facility" below) did not provide such guarantees for the New Credit Facility (also defined in "The Credit Facility" below) and, therefore, the Company will no longer be required to pay such fees in the future. At December 31, 2003, all of our interest-bearing debt was related to a reducing revolving credit facility with floating interest rates tied to a base rate approximately equal to the prime rate or LIBOR (at our option) plus a margin which fluctuates according to our ratio of funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (See "FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 5."). An increase in interest rates could have a material effect on our financial results.

## **Liquidity And Capital Resources**

We have historically funded our daily hotel and casino activities with net cash provided by operating activities. For the years 2004, 2003, and 2002, net cash provided by operating activities totaled \$25.7 million, \$22.4 million, and \$20.0 million, respectively. During each of the three years, net cash provided by operating activities was sufficient to fund our day-to-day operating expenses.

Net cash used in investing activities, which consisted of acquisitions of property and equipment, totaled \$9.1 million, \$7.8 million, and \$4.9 million in 2004, 2003, and 2002, respectively. Total capital expenditures, including amounts financed, were \$9.7 million, \$8.4 million, and \$6.5 million in 2004, 2003, and 2002, respectively.

Net cash used in financing activities totaled \$14.5 million in 2004 as we refinanced our credit facility during 2004, simultaneously paying off old debt and acquiring new debt. Net cash used in financing activities totaled \$14.8 million in 2003 and \$13.5 million in 2002.

## Commitments And Contingencies

Our contractual cash obligations as of December 31, 2004 over the next five years and thereafter are as follows:

Contractual Cash Obligations	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Long-term debt	\$32,400,000	\$ -	\$ -	\$32,400,000	\$ -
Operating leases (1)	5,538,131	450,631	740,000	740,000	3,607,500
Purchase obligations (2)	1,962,000	1,962,000	-	-	-
Total contractual cash obligations	<u>\$39,900,131</u>	<u>\$2,412,631</u>	<u>\$740,000</u>	<u>\$33,140,000</u>	<u>\$3,607,500</u>

(1) Operating leases include \$370,000 per year in lease and common expense payments to the shopping center adjacent to the Atlantis (see Capital Spending and Development).

(2) Our open purchase order commitments total approximately \$2.0 million. Of the total purchase order commitments, approximately \$1.6 million are cancelable by the Company upon providing a 30-day notice.

On March 10, 2003, we announced a plan to repurchase up to 250,000 shares, or 2.6%, of our common stock in open market transactions. The repurchases may be made from time to time depending on market conditions and availability of funds. The repurchases are to be made with our cash (see our Current Report filed on Form 8-K dated March 10, 2003). We did not purchase any shares of our common stock pursuant to this stock repurchase program during 2004. During 2003, we purchased 180,000 shares of our common stock pursuant to this stock repurchase program. The New Credit Facility (as defined below) requires achievement of certain financial ratios before we can repurchase our common stock.

We believe that our existing cash balances, cash flow from operations, equipment financing, and borrowings available under the New Credit Facility, which were \$40.25 million at December 31, 2004, will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure requirements; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow, we could be required to adopt one or more alternatives, such as reducing, delaying or eliminating planned capital expenditures, selling assets, restructuring debt or obtaining additional equity capital.

### The Credit Facility

Until February 20, 2004, we had a reducing revolving term loan credit facility with a consortium of banks that was to expire on June 30, 2004, and in the original amount of \$80 million but that had been reduced to \$46 million at payoff (the "Original Credit Facility").

On February 20, 2004, the Original Credit Facility was refinanced (the "New Credit Facility") for \$50 million, which included the \$46 million payoff of the unpaid balance of the Original Credit Facility. The amount of the New Credit Facility, which is also a reducing revolving facility, may be increased by up to \$30 million on a one-time basis and if requested by us before the second anniversary of the closing date, as defined. At our option, borrowings under the New Credit Facility will accrue interest at a rate designated by the agent bank at its base rate (the "Base Rate") or at the London Interbank Offered Rate ("LIBOR") for one, two, three or six month periods. The rate of interest paid by us will include a margin added to either the Base Rate or to LIBOR that is tied to our ratio of funded debt to EBITDA (the "Leverage Ratio"). Depending on our Leverage Ratio, this margin can vary between 0.25 percent and 1.25 percent above the Base Rate, and between 1.50 percent and 2.50 percent above LIBOR (under the Original Credit Facility, this margin varied between 0.00 percent and 2.00 percent above the Base Rate, and between 1.50 percent and 3.50 percent above LIBOR). At December 31, 2004, the applicable margin was the Base Rate plus 0.25%, and the applicable LIBOR margin was LIBOR plus 1.5%. At December 31, 2004, the Base Rate was 5.25% and the LIBOR rate was 2.19%. At December 31, 2004, the Company had \$2.5 million in Base Rate loans outstanding and had one LIBOR loan outstanding totaling \$29.9 million, for a total obligation of \$32.4 million.

We may utilize proceeds from the New Credit Facility for working capital needs and general corporate purposes relating to the Atlantis and for ongoing capital expenditure requirements at the Atlantis.

The New Credit Facility is secured by liens on substantially all of the real and personal property of the Atlantis, and is guaranteed by Monarch. The Original Credit Facility was guaranteed individually by certain controlling stockholders of the Company. These individuals were not required to provide any personal guarantees for the New Credit Facility and, therefore, going forward, we will no longer incur guarantee fee expenses.

The New Credit Facility contains covenants customary and typical for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of our assets and covenants restricting our ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets, and make certain investments. The New Credit Facility also contains covenants requiring us to maintain certain financial ratios, and provisions restricting transfers between Monarch and its affiliates. The New Credit Facility also contains provisions requiring the achievement of certain financial ratios before we can repurchase our common stock. We do not consider the covenants to restrict our operations.

The maturity date of the New Credit Facility is February 23, 2009. Beginning June 30, 2004, the maximum principal available under the Credit Facility will be reduced over five years by an aggregate of \$30.875 million in equal increments of \$1.625 million per quarter with the remaining balance due at the maturity date. We may prepay borrowings under the New Credit Facility without penalty (subject to certain charges applicable to the prepayment of LIBOR borrowings prior to the end of the applicable interest period). Amounts prepaid under the New Credit Facility may be reborrowed so long as the total borrowings outstanding do not exceed the maximum principal available. At December 31, 2004, our available borrowings were \$40.25 million with an outstanding balance of \$32.4 million. We may also permanently reduce the maximum principal available under the New Credit Facility at any time so long as the amount of such reduction is at least \$500,000 and a multiple of \$50,000. We also benefited from a reduced loan amortization schedule, from \$3 million per quarter under the Original Credit Facility to \$1.625 million per quarter under the New Credit Facility.

As of December 31, 2004, our Leverage Ratio had been equal to or less than one-to-one for the second consecutive quarter. Per the New Credit Facility, if we achieve a Leverage Ratio equal to or less than one-to-one for two consecutive quarters, our scheduled reduction of the next consecutive fiscal quarter is waived. Management has assumed that we will maintain a leverage ratio equal to or less than one-to-one for the remaining term of the New Credit Facility and, therefore, no principal reductions will be due until the New Credit Facility matures in 2009.

We paid various one-time fees and other loan costs upon the closing of the refinancing of the New Credit Facility that will be amortized over the term of the New Credit Facility using the straight-line method

Annual maturities of long-term debt, after giving effect to management's assumptions regarding our Leverage Ratio going forward, as of December 31, 2004, are as follows:

Year ending December 31,	
2005	\$ -
2006	-
2007	-
2008	-
2009	32,400,000
	<u>\$32,400,000</u>

**STOCKHOLDER GUARANTEE FEES.** From December 29, 1997 until February 20, 2004, all of our bank debt was personally guaranteed by our three largest stockholders. Effective January 1, 2001 and until February 20, 2004, we compensated the guarantors at the rate of 2% per annum of the quarterly average outstanding bank debt. For the twelve months ended December 31, 2004, and 2003, we recorded interest expense in the amounts of approximately \$136,000 and \$1.0 million, respectively, for these guarantee fees. The individuals who guaranteed our bank debt were not required to guarantee the New Credit Facility, and, as a result, we will no longer incur these expenses.

**SHORT-TERM DEBT.** At December 31, 2004, we had no slot purchase contracts or other short-term debt outstanding.

#### Statement On Forward Looking Information

Certain information included herein contains statements that may be considered forward-looking, such as statements relating to projections of future results of operations or financial condition, expectations for our casino,

and expectations of the continued availability of capital resources. Any forward-looking statement made by us necessarily is based upon a number of estimates and assumptions that, while considered reasonable by us, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and are subject to change. Actual results of our operations may vary materially from any forward-looking statement made by us or on our behalf. Forward-looking statements should not be regarded as representation by us or any other person that the forward-looking statements will be achieved. Undue reliance should not be placed on any forward-looking statements. Some of the contingencies and uncertainties to which any forward-looking statement contained herein are subject to include, but are not limited to, the following:

#### **Effects of Current Economic and Political Conditions**

The terrorist attacks that took place in the United States on September 11, 2001, were unprecedented events that created economic and business uncertainties, especially for the travel and tourism industry. The potential for future terrorist attacks, the national and international responses, and other acts of war or hostility, including the ongoing conflict in Iraq, have created economic and political uncertainties that could materially adversely affect our business, results of operations, and financial condition in ways we cannot predict.

#### **Our Business May be Adversely Impacted if the Reno Economy Declines**

We heavily market to and rely upon business from Reno area residents. In recent years, Reno has enjoyed robust business growth and has attracted a number of technology, product distribution and marketing companies. These businesses have created jobs and helped fuel residential development, including the southwest Reno metropolitan area near the Atlantis. Should there be negative changes in the business and job conditions in Reno, our locals business, which is the most substantial part of our overall business, could be adversely impacted.

#### **Changes in Regulations on Land Use Requirements Could Adversely Impact our Business**

A change in regulations on land use requirements with regard to development of new hotel casinos in the proximity of the Atlantis could have an adverse impact on our business, results of operations, and financial condition.

#### **Our Business May be Adversely Impacted by Weakened Economic Conditions in Northern California and the Pacific Northwest**

Because California and the Pacific Northwest are significant markets for our leisure traveler and conventioner customers, our business may be adversely impacted in the event of weakened economic conditions in those geographical markets.

#### **Failure of the Reno-Sparks Convention Center to Book and Attract Convention Business Could Adversely Impact our Business**

The Atlantis is the closest hotel-casino to the Reno-Sparks Convention Center, which completed a \$105 million expansion and renovation in late July 2002. If the expanded Reno-Sparks Convention Center does not succeed in booking the anticipated level of conventions, our future results of operations could be adversely impacted.

#### **Our Business May be Adversely Impacted by Expanded Native American Gaming Operations in California and the Pacific Northwest**

Our largest source of leisure traveler customers is California and the Pacific Northwest, including a large number who drive to Reno from the San Francisco and Sacramento metropolitan areas. Since a California constitutional amendment passed in 1999, development has commenced on several large-scale Native American-owned casino facilities in that state, some of which are located close to our key markets. Our business may be adversely impacted if the California casinos attract patrons who would otherwise travel to Reno. This risk may be greater during winter months when interstate highways may be subject to weather-related travel restrictions.

#### **The Gaming Industry is Highly Competitive and Increased Competition Could Have a Material Adverse Effect on our Future Operations**

The gaming industry is highly competitive. As competitive pressures from California Native American casinos increase, other Reno area casinos may intensify their targeting of the Reno area resident market, which is one of our key markets. Increased competitive pressures in the local market could adversely impact our ability to continue to

attract local residents to the Atlantis, or require us to use more expensive and therefore less profitable promotions to compete more efficiently.

In addition, Native American gaming facilities in California and other jurisdictions in some instances operate under regulatory requirements less stringent than those imposed on Nevada licensed casinos, which could afford them a competitive advantage in our markets. Moreover, increases in the popularity of, and competition from, Internet and other account wagering gaming services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, could have a material adverse effect on our business, financial condition, operating results and prospects.

#### **Adverse Winter Weather Conditions in the Sierra Nevadas and Reno-Lake Tahoe Area Could Have a Material Adverse Effect on our Results of Operations and Financial Condition**

Adverse winter weather conditions, particularly snowfall, can deter our customers from traveling or make it difficult for them to frequent the Atlantis. Adverse winter weather would most significantly affect our drive-in customers from northern California and the Pacific Northwest. If the Reno area itself were to experience prolonged adverse winter weather conditions, our results of operations and financial condition could also be materially adversely affected.

#### **Our Results of Operations May be Adversely Affected by High-End Players' Winnings**

Although high-end players are not the major focus of our marketing efforts, we have selectively targeted them since opening our newest tower in 1999. Should one or more of these high-end players win large sums in our casino or should a material amount of credit extended to such players not be repaid, our results of operations could be adversely impacted.

#### **The Farahi Family Owns a Majority of our Common Stock and Controls our Affairs**

Messrs. John, Bob and Ben Farahi, our Chief Executive Officer, President, and Chief Financial Officer, respectively, as well as the Co-Chairmen of our Board of Directors, own approximately 44.7% of our outstanding common stock as of March 8, 2005. Their sister, Jila Shabanian (nee Farahi), through her trust, owns approximately 6.0%. Accordingly, the Farahi family has the ability to control our operations and affairs, including the election of the entire Board of Directors and, except as otherwise provided by law, other matters submitted to a vote of the stockholders, including a merger, consolidation or sale of the assets of Monarch.

#### **A Change in Control Could Result in the Acceleration of our Debt Obligations**

Certain changes in control could result in the acceleration of the repayment of our bank debt. This acceleration could be triggered in the event the Farahi family sells enough of their stock to result in another stockholder acquiring more than 50% of our shares or upon their deaths if their respective heirs must sell a substantial number of our shares to obtain funds to pay estate tax liabilities. We cannot assure you that we would be able to repay indebtedness whose maturity is accelerated as a result of such a change in control, and such an inability would materially adversely affect our financial condition.

#### **If We Lose our Key Personnel, our Business Could be Materially Adversely Affected**

We depend on the continued performances of John Farahi, Bob Farahi and Ben Farahi, our Chief Executive Officer, our President, and our Chief Financial Officer, respectively, and their management team. If we lose the services of the Farahi brothers, or our other senior Atlantis management personnel, and cannot replace such persons in a timely manner, our business could be materially adversely affected.

#### **Our Business is Subject to Restrictions and Limitations Imposed by Gaming Regulatory Authorities that Could Adversely Affect Us**

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The State of Nevada and the applicable local authorities require various licenses, registrations, permits and approvals to be held by us and our subsidiary. The Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or decline to renew a license or approval to own the stock of our Nevada subsidiary for any cause deemed reasonable by such licensing authority. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiary and the persons involved, and we could be forced to forfeit a portion of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or

forfeiture of assets would have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our current gaming activities. However, gaming licenses and related approvals are deemed to be privileges under Nevada law. We cannot assure you that our existing licenses, permits and approvals will be maintained or extended.

#### **If the State of Nevada or the City of Reno Increases Gaming Taxes and Fees, our Results of Operations Could be Adversely Affected**

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. If the State of Nevada or the City of Reno were to increase gaming taxes and fees, our results of operations could be adversely affected.

A significant portion of our revenues and operating income are generated from patrons who are residents of Northern California. A change in general economic conditions or the extent and nature of casino gaming in California, Washington or Oregon could adversely affect our operating results. On September 10, 1999, California lawmakers approved a constitutional amendment that would give Indian tribes the right to offer slot machines and a range of house-banked card games. On March 7, 2000, California voters approved the constitutional amendment. Several Native American casinos have opened in Northern California since passage of the constitutional amendment. Certain experienced Nevada gaming operators have agreements to build and manage Indian casino facilities near Sacramento, one of Reno's key feeder markets. One major facility near Sacramento has been operating since June 2003 and has been very successful, adversely impacting many hotel casinos in Reno. Once these facilities receive all the required permits and are built, they could provide an alternative to Reno area casinos, especially during certain winter periods when auto travel through the Sierra Nevadas is hampered.

We also believe that the legalization of unlimited land-based casino gaming in or near any major metropolitan area in the Atlantis' key non-Reno marketing areas, such as San Francisco or Sacramento, could have a material adverse impact on our business.

In June 2004, five California Indian tribes signed compacts with the state that allows the tribes to increase the number of slot machines beyond the previous 2,000-per-tribe limit in exchange for higher fees from each of the five tribes. The State of California hopes to sign similar compacts with more Indian tribes.

Other states are also considering legislation enabling the development and operation of casinos or casino-like operations.

#### **Recently Issued Accounting Standards**

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (Revised 2004), "Share-Based Payment ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost will be measured based on fair value models of the equity or liability instruments issued. We currently disclose pro forma compensation expense quarterly and annually by calculating the stock option grants' fair value using the Black-Scholes model and disclosing the impact on net income and net income per share in a Note to the Consolidated Financial Statements. Upon adoption, pro forma disclosure will no longer be an alternative. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company will begin to apply SFAS No. 123R using an appropriate fair value model as of the interim reporting period ending on September 30, 2005. We are currently evaluating the provisions of SFAS No. 123(R) to determine its impact on our future financial statements.

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs." The statement is effective for inventory costs incurred during fiscal years beginning after June 15,



2005. We are currently evaluating the provisions of SFAS No. 151 to determine its impact on our future financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." This statement is based on the principle that exchanges of nonmonetary assets should be measured based on fair value of the assets exchanged. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We are currently evaluating the provisions of SFAS No. 153 to determine its impact on our future financial statements.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss arising from adverse changes in market risks and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not have any cash or cash equivalents as of December 31, 2004 that are subject to market risks.

We have substantial variable interest rate debt in the amount of approximately \$32.4 million as of December 31, 2004, and \$47.0 million as of December 31, 2003, which is subject to market risks.

A one percent increase in interest rates would have resulted in an increase in interest expense of approximately \$397,000 in 2004 and \$524,000 in 2003.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Monarch Casino & Resort, Inc.:

We have audited the accompanying consolidated balance sheets of Monarch Casino & Resort, Inc. and Subsidiary (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2003 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Las Vegas, Nevada  
February 11, 2005

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Monarch Casino & Resort, Inc.:

We have audited the accompanying consolidated statements of income, stockholders' equity, and cash flows for the year ended December 31, 2002 of Monarch Casino & Resort, Inc. and Subsidiary (the "Company"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Monarch Casino & Resort, Inc. and Subsidiary for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Reno, Nevada  
February 18, 2003

MONARCH CASINO & RESORT, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2004	2003	2002
Revenues			
Casino	\$84,131,876	\$74,955,744	\$70,772,939
Food and beverage	37,333,977	34,498,613	33,646,938
Hotel	24,318,082	21,236,808	20,303,439
Other	3,892,669	4,005,426	3,690,180
Gross revenues	149,676,604	134,696,591	128,413,496
Less: promotional allowances	(20,219,714)	(18,746,078)	(17,375,926)
Net revenues	129,456,890	115,950,513	111,037,570
Operating expenses			
Casino	30,513,391	29,321,060	27,690,033
Food and beverage	18,859,211	17,701,143	17,591,945
Hotel	7,858,616	6,991,581	6,543,610
Other	1,344,163	1,270,624	1,254,179
Selling, general & administrative	34,979,998	32,659,258	30,441,900
Depreciation and amortization	9,627,870	10,797,494	10,320,403
Total operating expenses	103,183,249	98,741,160	93,842,070
Income from operations	26,273,641	17,209,353	17,195,500
Other expense			
Interest expense, net	(1,448,125)	(1,607,840)	(2,633,917)
Stockholder guarantee fee expense	(136,164)	(1,030,010)	(1,300,446)
Stock transaction expense	-	-	(228,020)
Total other expense	(1,584,289)	(2,637,850)	(4,162,383)
Income before income taxes	24,689,352	14,571,503	13,033,117
Provision for income taxes	8,162,912	4,965,580	4,429,771
Net income	\$16,526,440	\$9,605,923	\$8,603,346
<i>Earnings Per Share Of Common Stock</i>			
Net income			
Basic	\$1.76	\$1.02	\$0.91
Diluted	\$1.76	\$1.02	\$0.90
Weighted average number of common shares and potential common shares outstanding			
Basic	9,378,225	9,379,446	9,457,669
Diluted	9,407,343	9,412,459	9,521,353

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

MONARCH CASINO & RESORT, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
<b>ASSETS</b>		
Current Assets		
Cash	\$11,814,778	\$9,711,310
Receivables, net	2,959,894	2,818,727
Federal income tax refund receivable	493,797	756,698
Inventories	1,452,696	1,245,967
Prepaid expenses	2,346,242	2,234,773
Deferred income taxes	1,115,719	542,457
Total current assets	<u>20,183,126</u>	<u>17,309,932</u>
Property and equipment		
Land	10,339,530	10,339,530
Land improvements	3,226,913	3,226,913
Buildings	78,955,538	78,955,538
Building improvements	7,524,680	6,304,642
Furniture and equipment	65,146,594	63,230,354
Leasehold improvement	1,346,965	-
	<u>166,540,220</u>	<u>162,056,977</u>
Less accumulated depreciation and amortization	<u>(68,791,045)</u>	<u>(63,618,047)</u>
Net property and equipment	97,749,175	98,438,930
Other assets, net	406,620	128,263
	<u>\$118,338,921</u>	<u>\$115,877,125</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$ -	\$6,059,591
Accounts payable	5,747,775	8,407,887
Accrued expenses	7,918,299	6,707,257
Total current liabilities	<u>13,666,074</u>	<u>21,174,735</u>
Long-term debt, less current maturities	32,400,000	41,125,000
Deferred income taxes	6,509,505	4,854,587
Stockholders' equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value, 30,000,000 shares authorized; 9,536,275 issued; 9,406,224 outstanding 12/31/04; 9,340,328 outstanding 12/31/03	95,363	95,363
Additional paid-in capital	17,463,272	17,432,635
Treasury stock, 130,051 shares 12/31/04; 195,947 shares 12/31/03, at cost	(954,152)	(1,437,614)
Retained earnings	49,158,859	32,632,419
Total stockholders' equity	<u>65,763,342</u>	<u>48,722,803</u>
	<u>\$118,338,921</u>	<u>\$115,877,125</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

MONARCH CASINO & RESORT, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Treasury	Total
	Shares Outstanding	Amount	Paid-in Capital	Earnings	Stock	
Balance, January 1, 2002	9,436,275	\$95,363	\$17,241,788	\$14,423,150	\$ (329,875)	\$31,430,426
Exercise of stock options	38,555	-	139,729	-	127,183	266,912
Net income	-	-	-	8,603,346	-	8,603,346
Balance, December 31, 2002	9,474,830	95,363	17,381,517	23,026,496	(202,692)	40,300,684
Exercise of stock options	45,498	-	51,118	-	192,478	243,596
Stock repurchase	(180,000)	-	-	-	(1,427,400)	(1,427,400)
Net income	-	-	-	9,605,923	-	9,605,923
Balance, December 31, 2003	9,340,328	95,363	17,432,635	32,632,419	(1,437,614)	48,722,803
Exercise of stock options	65,896	-	30,637	-	483,462	514,099
Net income	-	-	-	16,526,440	-	16,526,440
Balance, December 31, 2004	9,406,224	\$95,363	\$17,463,272	\$49,158,859	\$(954,152)	\$65,763,342

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

MONARCH CASINO & RESORT, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income	\$16,526,440	\$ 9,605,923	\$ 8,603,346
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,627,870	10,797,494	10,320,403
Amortization of deferred loan costs	173,708	179,427	179,425
Provision for bad debts	394,065	742,407	634,934
Loss (gain) on disposal of assets	172,893	(133,301)	(34,647)
Deferred income taxes	1,081,656	277,842	189,516
Changes in assets and liabilities			
Receivables, net	(272,331)	(1,416,785)	279,057
Inventories	(206,728)	(252,708)	(17,118)
Prepaid expenses	(111,469)	(273,009)	(502,959)
Other assets	(452,065)	10,684	(16,113)
Accounts payable	(2,660,112)	2,180,763	(221,963)
Accrued expenses	1,459,395	682,322	584,387
Net cash provided by operating activities	<u>25,733,322</u>	<u>22,401,059</u>	<u>19,998,268</u>
Cash flows from investing activities:			
Proceeds from sale of assets	38,954	154,869	48,979
Acquisition of property and equipment	(9,149,964)	(7,996,678)	(4,802,525)
Changes in accounts payable construction	-	-	(147,481)
Net cash used in investing activities	<u>(9,111,010)</u>	<u>(7,841,809)</u>	<u>(4,901,027)</u>
Cash flows from financing activities:			
Proceeds from exercise of stock options	265,747	122,092	126,116
Proceeds from long-term borrowings	49,460,304	1,000,000	500,000
Principal payments on long-term debt	(64,244,895)	(14,504,116)	(14,147,616)
Purchase of Monarch common stock	-	(1,427,400)	-
Net cash used in financing activities	<u>(14,518,844)</u>	<u>(14,809,424)</u>	<u>(13,521,500)</u>
Net increase (decrease) in cash	2,103,468	(250,174)	1,575,741
Cash at beginning of period	<u>9,711,310</u>	<u>9,961,484</u>	<u>8,385,743</u>
Cash at end of period	<u>\$11,814,778</u>	<u>\$ 9,711,310</u>	<u>\$ 9,961,484</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$1,420,230	\$ 2,421,094	\$ 3,927,016
Cash paid for income taxes	\$6,570,000	\$ 5,146,612	\$ 4,105,760
Supplemental schedule of non-cash investing and financing activities:			
The Company financed the purchase of property and equipment in the following amounts	\$ 560,304	\$ 409,612	\$ 1,583,868

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

MONARCH CASINO & RESORT, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

Monarch Casino & Resort, Inc. ("Monarch"), a Nevada corporation, was incorporated in 1993. Monarch's wholly-owned subsidiary, Golden Road Motor Inn, Inc. ("Golden Road"), operates the Atlantis Casino Resort (the "Atlantis"), a hotel/casino facility in Reno, Nevada. Unless stated otherwise, the "Company" refers collectively to Monarch and its Golden Road subsidiary.

The consolidated financial statements include the accounts of Monarch and Golden Road. Intercompany balances and transactions are eliminated.

*Use of Estimates*

In preparing these financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the year. Actual results could differ from those estimates.

*Self-insurance Reserves*

The Company reviews self-insurance reserves at least quarterly. The amount of reserve is determined by reviewing the actual expenditures for the previous twelve-month period and reviewing reports prepared by the third party plan administrator for any significant unpaid claims. The reserve is accrued at an amount that approximates amounts needed to pay both reported and unreported claims as of the balance sheet date, which management believes are adequate.

*Capitalized Interest*

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company's average cost of borrowed money. Interest capitalization is ceased when the project is substantially complete. The Company did not record capitalized interest during the years ended December 31, 2004, 2003, and 2002.

*Stockholder Guarantee Fees*

All of the Company's bank debt was personally guaranteed by the Company's three largest stockholders since the inception of our original loan agreement on December 29, 1997. Effective January 1, 2001, until February 20, 2004, the Company compensated the guarantors at the rate of 2% per annum of the quarterly average outstanding bank debt amount. For the years ended December 31, 2004, 2003, and 2002, the Company recorded interest expense in the amounts of approximately \$136,000, \$1.0 million and \$1.3 million, respectively, for these guarantee fees. The individuals who guaranteed our Original Credit Facility were not required to do so for the New Credit Facility (as defined in NOTE 5. – LONG-TERM DEBT). Therefore, the Company no longer incurs such guarantee fee expenses.

*Inventories*

Inventories, consisting primarily of food, beverages, and retail merchandise, are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

*Property and Equipment*

Property and equipment are stated at cost, less accumulated depreciation and amortization. Since inception, property and equipment have been depreciated principally on a straight line basis over the estimated service lives as follows:



Land improvements	15-40 years
Buildings	30-40 years
Building improvements	15-40 years
Furniture	5-10 years
Equipment	5-20 years

In accordance with SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," the Company evaluates the carrying value of its long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable from related future undiscounted cash flows. Indicators which could trigger an impairment review include legal and regulatory factors, market conditions and operational performance. Any resulting impairment loss, measured as the difference between the carrying amount and the fair value of the assets, could have a material adverse impact on the Company's financial condition and results of operations.

#### *Casino Revenues*

Casino revenues represent the net win from gaming activity, which is the difference between wins and losses. Additionally, net win is reduced by a provision for anticipated payouts on slot participation fees, progressive jackpots and any pre-arranged marker discounts.

#### *Promotional Allowances*

The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances. The estimated departmental costs of providing such promotional allowances are included in casino costs and expenses as follows:

	Years ended December 31,		
	2004	2003	2002
Food & beverage	\$10,393,036	\$ 9,744,346	\$ 8,810,054
Hotel	1,692,539	1,766,016	1,648,735
Other	402,496	269,246	197,906
	<u>\$12,488,071</u>	<u>\$11,779,608</u>	<u>\$10,656,695</u>

#### *Advertising Costs*

All advertising costs are expensed as incurred. Advertising expense, which is included in selling, general & administrative expense, was \$3,455,130, \$3,249,065, and \$3,240,402 for 2004, 2003, and 2002, respectively.

#### *Income Taxes*

Income taxes are recorded in accordance with the liability method specified by Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes." Under the asset and liability approach for financial accounting and reporting for income taxes, the following basic principles are applied in accounting for income taxes at the date of the financial statements: (a) a current liability or asset is recognized for the estimated taxes payable or refundable on taxes for the current year; (b) a deferred income tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards; (c) the measurement of current and deferred tax liabilities and assets is based on the provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated; and (d) the measurement of deferred income taxes is reduced, if necessary, by the amount of any tax benefits that, based upon available evidence, are not expected to be realized.

#### *Stock Based Compensation*

The Company maintains three stock option plans, which are described more fully in Note 7. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations in accounting for its plans. No stock-based compensation costs are reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. If the Company had elected to recognize compensation cost on the fair market value at the grant dates for awards under the stock option plans, consistent with the method prescribed by Statement of Financial Accounting Standards ("SFAS No. 123"), "Accounting for Stock-Based Compensation," (and as amended by SFAS No. 148, "Accounting for Stock-

Based Compensation – Transition and Disclosure," which the Company adopted for the fiscal year ended December 31, 2004), net income and income per share would have been changed to the pro forma amounts indicated below:

	Years ended December 31,		
	2004	2003	2002
Net income, as reported	\$ 16,526,440	\$ 9,605,923	\$ 8,603,346
Stock based employee compensation expensed determined under the fair value based method for all awards, net of related tax effects	(45,264)	(39,923)	(135,359)
Pro forma net income	<u>\$ 16,481,176</u>	<u>\$ 9,566,000</u>	<u>\$ 8,467,987</u>
Basic earnings per share			
As reported	\$ 1.76	\$ 1.02	\$ 0.91
Pro forma	\$ 1.76	\$ 1.02	\$ 0.90
Diluted earnings per share			
As reported	\$ 1.76	\$ 1.02	\$ 0.90
Pro forma	\$ 1.75	\$ 1.02	\$ 0.89

#### *Earnings Per Share*

The Company reports "basic" earnings per share and "diluted" earnings per share in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic earnings per share is computed by dividing reported net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the additional dilution for all potentially dilutive securities such as stock options.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations (shares in thousands):

	Years ended December 31,					
	2004		2003		2002	
	Shares	Per share amount	Shares	Per share amount	Shares	Per share amount
Net income						
Basic	9,378	\$ 1.76	9,379	\$ 1.02	9,458	\$ 0.91
Effect of dilutive stock options	29	-	33	-	63	(0.01)
Diluted	<u>9,407</u>	<u>\$ 1.76</u>	<u>9,412</u>	<u>\$ 1.02</u>	<u>9,521</u>	<u>\$ 0.90</u>

The following options were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and their inclusion would be antidilutive:

	2004	2003	2002
Options to purchase shares of common stock (in thousands)	406	19	14
Exercise prices	\$23.37 - \$34.39	\$10.90 - \$14.37	\$11.99 - \$14.37
Expiration dates	10/14 - 11/14	6/07 - 11/13	6/07 - 8/12

#### *Fair Value of Financial Instruments*

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107 "Disclosures About Fair Value of Financial Instruments." The estimated fair value of the Company's financial instruments has been determined by the Company, using available market information and valuation methodologies. However, considerable judgment is required to develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments.

The fair value of long-term debt approximates fair value based on the current borrowing rates offered to the Company for debt of the same remaining maturities.

#### *Concentrations of Credit Risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of bank deposits and trade receivables. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base. The Company believes it is not exposed to any significant credit risk on cash and accounts receivable.

#### *Certain Risks and Uncertainties*

A significant portion of the Company's revenues and operating income are generated from patrons who are residents of northern California. A change in general economic conditions or the extent and nature of casino gaming in California, Washington or Oregon could adversely affect the Company's operating results. The constitutional amendment approved by California voters in 1999 allowing the expansion of Indian casinos in California has had an impact on casino revenues in Nevada in general, and many analysts have continued to predict the impact will be more significant on the Reno-Lake Tahoe market. The extent of this continued impact is difficult to predict, but we believe that the impact on us will continue to be mitigated to some extent due to the Atlantis' emphasis on Reno area residents as a significant base of its business, as well as its proximity to the Reno-Sparks Center. However, if other Reno area casinos continue to suffer business losses due to increased pressure from California Indian casinos, they may intensify their marketing efforts to Reno-area residents as well. However, we believe our numerous amenities such as a wide array of restaurants, a video arcade, banquet facilities and surface parking are a key factor in our ability to attract Locals which competitor facilities will not easily be able to match without major capital expenditures.

Certain experienced Nevada gaming operators have agreements to build and manage Indian casino facilities near San Francisco, one of Reno's key feeder markets. One major facility near Sacramento has been operating since June 2003 and has been very successful, adversely impacting many hotel casinos in Reno. Once these facilities receive all the required permits and are built, they could provide an alternative to Reno area casinos, especially during certain winter periods when auto travel through the Sierra Nevada mountains is hampered.

We also believe that the legalization of unlimited land-based casino gaming in or near any major metropolitan area in the Atlantis' key non-Reno marketing areas, such as San Francisco or Sacramento, could have a material adverse impact on our business.

In June 2004, five California Indian tribes signed compacts with the state that allows the tribes to increase the number of slot machines beyond the previous 2,000-per-tribe limit in exchange for higher fees from each of the five tribes. The State of California hopes to sign similar compacts with more Indian tribes.

In addition, the Company relies on non-conventioner visitors partially comprised of individuals flying into the Reno area. The "War on Terrorism," combined with the ongoing situation in Iraq and the threat of further terrorist attacks could have an adverse effect on the Company's revenues from this segment. The terrorist attacks that took place in the United States on September 11, 2001 were unprecedented events that created economic and business uncertainties, especially for the travel and tourism industry. The potential for future terrorist attacks, the national and international responses, and other acts of war or hostility including the ongoing situation in Iraq, have created economic and political uncertainties that could materially adversely affect our business, results of operations, and financial condition in ways we cannot predict.

A change in regulations on land use requirements with regard to development of new hotel casinos in the proximity of the Atlantis could have an adverse impact on our business, results of operations, and financial condition.

## Impact Of Recently Issued Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (Revised 2004), "Share-Based Payment ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost will be measured based on fair value models of the equity or liability instruments issued. We currently disclose pro forma compensation expense quarterly and annually by calculating the stock option grants' fair value using the Black-Scholes model and disclosing the impact on net income and net income per share in a Note to the Consolidated Financial Statements. Upon adoption, pro forma disclosure will no longer be an alternative. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company will begin to apply SFAS No. 123R using an appropriate fair value model as of the interim reporting period ending September 30, 2005. We are currently evaluating the provisions of SFAS No. 123(R) to determine its impact on our future financial statements.

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs." The statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are currently evaluating the provisions of SFAS No. 151 to determine its impact on our future financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." This statement is based on the principle that exchanges of nonmonetary assets should be measured based on fair value of the assets exchanged. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We are currently evaluating the provisions of SFAS No. 153 to determine its impact on our future financial statements.

### NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	December 31,	
	2004	2003
Casino .....	\$2,692,183	\$2,964,684
Hotel .....	690,278	655,100
Other .....	378,116	229,561
	<u>3,760,577</u>	<u>3,849,345</u>
Less allowance for doubtful accounts .....	<u>(800,683)</u>	<u>(1,030,618)</u>
	<u>\$2,959,894</u>	<u>\$2,818,727</u>

The Company recorded bad debt expense of \$394,065, \$742,407 and \$634,934 in 2004, 2003, and 2002, respectively.

### NOTE 3. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31,	
	2004	2003
Accrued salaries, wages and related benefits	\$4,301,646	\$3,459,596
Progressive slot machine and other gaming accruals	1,622,669	1,341,454
Accrued gaming taxes	431,920	310,691
Accrued interest	129,782	139,431
Other accrued liabilities	<u>1,432,282</u>	<u>1,456,085</u>
	<u>\$7,918,299</u>	<u>\$6,707,257</u>

#### NOTE 4. LEASE COMMITMENTS

The Company leases certain furniture and equipment. The leases generally provide for the lessee to pay taxes, maintenance, insurance, and certain other operating costs of the leased property. The leases on most of the properties contain renewal provisions.

In 2004, a new driveway was constructed that is being shared between the Atlantis and the adjacent Sierra Marketplace Shopping Center that is owned and controlled by affiliates of the Company's controlling stockholders (the "Shopping Center"). A new traffic signal was erected at mid-block on South Virginia Street, serving the new driveway. As part of this project, the Company is leasing a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. The Company is also using part of the common area of the Shopping Center and pays its proportional share of the common area expense of the Shopping Center. The Company has the option to renew the lease for 3 five-year terms, and at the end of the extension period, the Company has the option to purchase the leased section of the Shopping Center at a price to be determined based on a MAI Appraisal. The Company uses the leased space for pedestrian and vehicle access to the Atlantis, and the Company has use of a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million. The project was completed, the driveway was put into use and we began paying rent on September 30, 2004. The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time.

Following is a summary of future minimum payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2004:

Year ending December 31,	Operating Leases
2005 .....	\$ 450,631
2006 .....	370,000
2007 .....	370,000
2008 .....	370,000
2009 .....	370,000
Thereafter .....	3,607,500
Total minimum lease payments	<u>\$5,538,131</u>

Rental expense for operating leases amounted to \$175,596, \$185,304, and \$176,065, in 2004, 2003, and 2002, respectively, as reported in selling, general and administrative expenses in the statement of income.

## NOTE 5. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	2004	2003
Amounts outstanding under bank reducing revolving credit facility (the "New Credit Facility"), collateralized by substantially all property and equipment of Golden Road and guaranteed by Monarch, with floating interest rates tied to a base rate approximately equal to the prime rate or LIBOR (at the Company's option) plus a margin which fluctuates according to the Company's ratio of funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The weighted average interest rate was approximately 3.82% at December 31, 2004 (see "The Credit Facility" below)	\$32,400,000	\$ -
Amounts outstanding under bank reducing revolving credit facility (the "Original Credit Facility"), collateralized by substantially all property and equipment of Golden Road and guaranteed by Monarch and its three largest stockholders, with floating interest rates tied to a base rate approximately equal to the prime rate or LIBOR (at the Company's option) plus a margin which fluctuates according to the Company's ratio of funded debt to EBITDA. The weighted average interest rate was approximately 2.62% at December 31, 2003. At the time of the refinancing of the Original Credit Facility on February 20, 2004 (see below), the loan was paid in full	-	47,000,000
Slot purchase contracts, collateralized by equipment. Contracts are non-interest bearing and all mature within twelve months	-	184,591
	32,400,000	47,184,591
Less current maturities	-	(6,059,591)
	<u>\$32,400,000</u>	<u>\$41,125,000</u>

### The Credit Facility.

On February 20, 2004, the Original Credit Facility was refinanced (the "New Credit Facility") for \$50 million, which includes a \$46 million payoff for the unpaid balance of the Original Credit Facility. The amount of the New Credit Facility may be increased by up to \$30 million on a one-time basis and if requested by the Company before the second anniversary of the closing date, as defined. At the Company's option, borrowings under the New Credit Facility will accrue interest at a rate designated by the agent bank at its base rate (the "Base Rate") or at the London Interbank Offered Rate ("LIBOR") for one, two, three or six month periods. The rate of interest paid by the Company will include a margin added to either the Base Rate or to LIBOR that is tied to the Company's ratio of funded debt to EBITDA (the "Leverage Ratio"). Depending on the Company's Leverage Ratio, this margin can vary between 0.25 percent and 1.25 percent above the Base Rate, and between 1.50 percent and 2.50 percent above LIBOR (under the Original Credit Facility, this margin varied between 0.00 percent and 2.00 percent above the Base Rate, and between 1.50 percent and 3.50 percent above LIBOR). At December 31, 2004, the applicable margin was the Base Rate plus 0.25%, and the applicable LIBOR margin was LIBOR plus 1.5%. At December 31, 2004, the Base Rate was 5.25% and the LIBOR rate was 2.19%. At December 31, 2004, the Company had \$2.5 million in Base Rate loans outstanding and had one LIBOR loan outstanding totaling \$29.9 million, for a total obligation of \$32.4 million.

The Company may utilize proceeds from the New Credit Facility for working capital needs and general corporate purposes relating to the Atlantis and for ongoing capital expenditure requirements at the Atlantis.

The New Credit Facility is secured by liens on substantially all of the real and personal property of the Atlantis, and is guaranteed by Monarch. The Original Credit Facility was guaranteed individually by certain executives of the Company. These individuals were not required to provide any personal guarantees for the New Credit Facility and, therefore, the Company will no longer incur guarantee fee expenses.

The New Credit Facility contains covenants customary and typical for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of the Company's assets and covenants restricting the Company's ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets, and make certain investments. The New Credit Facility also contains covenants requiring the Company to maintain certain financial ratios, and provisions restricting transfers between Monarch and its constituents. The New Credit Facility also contains provisions requiring the achievement of certain financial ratios before the Company can repurchase its common stock. Management does not consider the covenants to restrict the Company's operations.

The maturity date of the New Credit Facility is February 23, 2009. Beginning June 30, 2004, the maximum principal available under the Credit Facility is reduced by an aggregate of \$30.875 million in equal increments of \$1.625 million per quarter with the remaining balance due at the maturity date. The Company may prepay borrowings under the New Credit Facility without penalty (subject to certain charges applicable to the prepayment of LIBOR borrowings prior to the end of the applicable interest period). Amounts prepaid under the New Credit Facility may be reborrowed so long as the total borrowings outstanding do not exceed the maximum principal available. The Company may also permanently reduce the maximum principal available under the New Credit Facility at any time so long as the amount of such reduction is at least \$500,000 and a multiple of \$50,000.

As of December 31, 2004, our Leverage Ratio had been equal to or less than one-to-one for the second consecutive quarter. Per the New Credit Facility, if we achieve a Leverage Ratio equal to or less than one-to-one for two consecutive quarters, our scheduled reduction of the next consecutive fiscal quarter is waived.

The Company paid various fees and other loan costs upon the closing of the refinancing of the New Credit Facility that will be amortized over the term of the New Credit Facility using the straight-line method.

Annual maturities of long-term debt, after giving effect to management's assumptions regarding our Leverage Ratio going forward, as of December 31, 2004, are as follows:

Year ending December 31,	
2005 .....	\$ -
2006 .....	-
2007 .....	-
2008 .....	-
2009 .....	32,400,000
	<u>\$32,400,000</u>

#### NOTE 6. INCOME TAX

Income tax provision from continuing operations consists of the following:

	Years ended December 31,		
	2004	2003	2002
Current provision	\$7,081,256	\$4,687,667	\$4,240,255
Deferred provision	1,081,656	277,913	189,516
	<u>\$8,162,912</u>	<u>\$4,965,580</u>	<u>\$4,429,771</u>

The difference between the Company's provision for federal income taxes as presented in the accompanying Consolidated Statements of Income, and the provision for income taxes computed at the statutory rate is comprised of the items shown in the following table as a percentage of pre-tax earnings.

	Years ended December 31,		
	2004	2003	2002
Income tax at the statutory rate	35.0%	35.0%	34.0%
Non-deductible expenses and other	(1.1)%	0.2%	1.2%
Tax credits	(0.8)%	(1.1)%	(1.2)%
	<u>33.1%</u>	<u>34.1%</u>	<u>34.0%</u>

The components of the deferred income tax assets and liabilities at December 31, 2004 and 2003, as presented in the Consolidated Balance Sheets, are as follows:

	2004	2003
<b>DEFERRED TAX ASSETS</b>		
Compensation and benefits	\$ 432,757	\$ 344,500
Bad debt reserves	280,239	185,700
Accrued gaming liabilities	227,058	96,600
Accrued other	175,665	(84,343)
Deferred income tax asset	<u>\$ 1,115,719</u>	<u>\$ 542,457</u>
<b>DEFERRED TAX LIABILITIES</b>		
Impairment of assets	\$ (72,260)	\$ (72,260)
Depreciation	(5,924,465)	(4,467,841)
Land basis	(285,706)	(285,706)
Other	(227,074)	(28,780)
Deferred income tax liability	<u>\$(6,509,505)</u>	<u>\$(4,854,587)</u>

## NOTE 7. BENEFIT PLANS

Savings Plan - Effective November 1, 1995, the Company adopted a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating employees may defer up to 15% of their pre-tax compensation, but not more than statutory limits. The Company contributes twenty five cents for each dollar contributed by a participant, with a maximum contribution of 4% of a participant's compensation. The Company's matching contributions were approximately \$44,947, \$45,370, and \$32,678 in 2004, 2003, and 2002, respectively.

Stock Option Plans - The Company maintains three stock option plans, consisting of the Directors' Stock Option Plan, the Executive Long-term Incentive Plan, and the Employee Stock Option Plan (the "Plans"), which collectively provide for the granting of options to purchase up to 775,000 common shares. The exercise price of stock options granted under the plans is established by the respective plan committees, but the exercise price may not be less than the market price of the Company's common stock on the date the option is granted. Options expire five to ten years from the grant date. The Plans were amended by majority stockholder approval at the Company's 2003 Annual Meeting of Stockholders on June 12, 2003. The amendment per majority approval extended the terms of the existing stock compensation plans, increased the amount of option shares authorized for issue under the existing stock compensation plans, extended the life of stock options granted under the existing Directors' Stock Option Plan and permitted the Directors' Plan Committee to extend the term of any existing option grants under the Directors' Stock Option Plan, and revised the description of employees eligible to receive options and the conditions that determine the purchase price of stock options under the existing Executive Long-Term Incentive Stock Option Plan. By their amended terms, the Plans will expire in June, 2013.

The Company has adopted the disclosure-only provisions of SFAS No. 123, as amended by SFAS No. 148, but applies APB No. 25 and related interpretations in accounting for its plans. No stock-based compensation costs are reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

The fair value of the Company's stock options, as presented in Note 1, was estimated as of the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for 2004, 2003, and 2002: dividend yield of 0.0% for all periods; expected volatility of 45.5%, 41.9%, and 58.7%, respectively; a weighted average risk free interest rate of 3.82%, 2.80%, and 3.83%, respectively; and expected holding periods ranging from three to nine years.



Presented below is a summary of the status of the Company's stock options and the related transactions.

	Shares	Weighted average exercise price
Outstanding at December 31, 2001	159,900	\$3.38
Granted	34,150	10.52
Exercised	(38,555)	(3.27)
Forfeited / expired	(11,666)	(4.88)
Outstanding at December 31, 2002	143,829	4.99
Granted	24,150	8.51
Exercised	(45,498)	(2.69)
Forfeited / expired	(10,000)	(11.93)
Outstanding at December 31, 2003	112,481	6.07
Granted	420,150	23.17
Exercised	(65,896)	(4.65)
Forfeited / expired	(13,335)	(8.36)
Outstanding at December 31, 2004	453,400	\$22.15
Weighted average fair value of options granted during		
2004	\$11.92	
2003	\$ 3.62	
2002	\$ 5.60	

Range of Exercise Prices	Shares	Stock Options Outstanding		Stock Options Exercisable	
		Weighted Average Contractual Life (in years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$2.88 to \$7.98	19,100	6.0	\$ 6.26	9,100	\$ 5.80
\$11.30 to \$14.37	28,300	6.7	\$ 13.46	18,300	\$ 13.95
\$23.37 to \$34.39	406,000	9.8	\$ 23.51	-	N.A.
Total	453,400			27,400	

#### NOTE 8. COMMITMENTS AND CONTINGENCIES

Self Insurance - The Company is self-insured for health care claims for eligible active employees. Benefit plan administrators assist the Company in determining its liability for self-insured claims, and such claims are not discounted. The Company is also self-insured for workman's compensation. Both plans limit the Company's maximum liability under stop-loss agreements with insurance companies. The maximum liability for health care claims under the stop-loss agreement is \$75,000 per claim. The maximum liability for workman's compensation under the stop-loss agreement is \$400,000 per claim.

On March 10, 2003, we announced a plan to repurchase up to 250,000 shares, or 2.6%, of our common stock in open market transactions. The repurchases may be made from time to time depending on market conditions and availability of funds. The repurchases are to be made with our cash. We did not purchase any shares of our common stock pursuant to this stock repurchase program during 2004. During 2003, we purchased 180,000 shares of our common stock pursuant to this stock repurchase program.

The Company is a defendant in various pending legal proceedings. In the opinion of management, all pending claims in such litigation will not, in the aggregate, have a material adverse effect on the Company's financial position or results of operations.

#### NOTE 9. RELATED PARTY TRANSACTIONS

The three principal stockholders of the Company, through their affiliates, control the ownership and management of a shopping center directly adjacent to the Atlantis (the "Shopping Center"). The Shopping Center occupies 18.7 acres and consists of approximately 213,000 square feet of retail space. The Company currently rents

various spaces totaling approximately 7,700 square feet in the Shopping Center which it uses as office space and paid rent of approximately \$67,200 plus common area expenses in 2004. The Company paid rent of approximately \$56,000 and \$48,400 plus common area expenses in 2003 and 2002, respectively.

In addition, a new driveway that is being shared between the Atlantis and the Shopping Center was completed on September 30, 2004. As part of this project, in January 2004, the Company leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. The Company has begun paying rent to the Shopping Center. The Company also uses part of the common area of the Shopping Center and pays its proportional share of the common area expense of the Shopping Center. The Company has the option to renew the lease for 3 five-year terms, and at the end of the extension periods, the Company has the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by the Company for pedestrian and vehicle access to the Atlantis, and the Company may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million. The Company paid approximately \$75,800 plus common area charges in 2004 for its leased driveway space at the Shopping Center.

On September 23, 2003, the Company entered into an option agreement with an affiliate of its controlling stockholders to purchase property in South Reno for development of a new hotel casino. Commencement of any development of the property will require completion of property due diligence and receipt of numerous approvals, including master plan changes and zoning changes, neither of which can be assured. The Company, through the current property owner, has filed an application with the City of Reno for both master plan and zoning changes for 13 acres of the property. On January 20, 2005, the City of Reno Planning Commission approved our application for zoning change on the property. The Reno City Council and regional governing authorities must next approve the application.

The Company is currently leasing billboard advertising space from affiliates of its controlling stockholders for a total annual cost \$53,000 in 2004 and \$54,000 in 2003. There were no billboard advertising costs in 2002.

The Company is currently renting office and storage space from a company affiliated with Monarch's controlling stockholders and pays annual rent of approximately \$27,900 for these spaces for each of the years 2004, 2003 and 2002.

During 2002, the Company incurred one-time expenses of approximately \$228,000 for legal, accounting, printing and road show costs associated with a secondary stock offering by principal stockholders.

#### NOTE 10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2004				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net revenues	\$30,485,978	\$32,714,001	\$35,060,753	\$31,196,158	\$129,456,890
Operating expenses	25,741,608	25,821,311	26,250,312	25,370,018	103,183,249
Income from operations	4,744,370	6,892,690	8,810,441	5,826,140	26,273,641
Net income	2,758,245	4,352,013	5,552,438	3,863,744	16,526,440
Income per share of common stock					
Basic	\$ 0.30	\$ 0.46	\$ 0.59	\$ 0.41	\$ 1.76
Diluted*	\$ 0.29	\$ 0.46	\$ 0.59	\$ 0.41	\$ 1.76
*Difference due to rounding.					
	2003				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net revenues	\$27,164,928	\$29,075,070	\$31,446,693	\$28,263,822	\$115,950,513
Operating expenses	23,649,979	24,863,622	25,260,680	24,966,879	98,741,160
Income from operations	3,514,949	4,211,448	6,186,013	3,296,943	17,209,353
Net income	1,837,927	2,331,109	3,665,814	1,771,073	9,605,923
Income per share of common stock					
Basic	\$ 0.19	\$ 0.25	\$ 0.39	\$ 0.19	\$ 1.02
Diluted	\$ 0.19	\$ 0.25	\$ 0.39	\$ 0.19	\$ 1.02

## Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As of the end of the period covered by this report (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable assurance level.

Our management does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control. The design of a control system is also based upon certain assumptions about the likelihood of future events, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

### Internal Control Over Financial Reporting

There has been no change in our internal controls over financial reporting during the year ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reports.

We are in the process of our compliance efforts mandated by Section 404 of the Sarbanes-Oxley Act of 2002. As we have done our due diligence in trying to understand the requirements and corresponding work necessary to successfully document our system of internal controls to the standards and satisfaction of third parties, we have encountered egregious estimates of time, dollars, outside consultant fees, and volumes of paperwork. As our implementation has progressed, we have yet to realize any control, operations or governance improvements or benefits. Additionally, and most importantly, the estimated potential cost to our shareholders in relation to the benefits, or even potential benefits, is unconscionable. We believe that these additional costs and expenses will merely confirm the existence of an already effective and functioning control system that already conforms with a recognized system of internal controls.

Although we intend to diligently pursue implementation and compliance with the Section 404 requirements, we do not believe it is in our shareholders' best interests to incur unnecessary outsized costs in this effort. As we are a single location company with an extremely involved, hands-on senior management group in a highly regulated industry with significant insider ownership, the potential benefits to be derived from the Section 404 requirements are believed to be minimal. Consequently, we will make every effort internally to comply with the Section 404 requirements but will minimize what we believe to be the unreasonable and unnecessary expense of retaining outside third parties to assist in this effort.

As a result of this cautioned approach and the complexity of compliance, there is a risk that, notwithstanding the best efforts of our management group, we may fail to adopt sufficient internal controls over financial reporting that are in compliance with the Section 404 requirements.

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# MONARCH CASINO & RESORT, INC.

1175 West Moana Lane, Suite 200 • Reno, NV 89509 • (775) 825-3355 • Fax (775) 825-7705

## DIRECTORS AND OFFICERS

### Board of Directors

#### John Farahi

Co-Chairman of the Board, Chief Executive Officer  
and Chief Operating Officer,  
Monarch Casino & Resort, Inc.

#### Bob Farahi

Co-Chairman of the Board and  
President, Monarch Casino & Resort, Inc.

#### Ben Farahi

Co-Chairman of the Board, Chief Financial Officer,  
Secretary and Treasurer,  
Monarch Casino & Resort, Inc.

#### Craig F. Sullivan

President, Sullivan & Associates  
Las Vegas, Nevada

#### Ronald R. Zideck

Retired Managing Partner, Grant Thornton LLP  
Reno, Nevada

#### Charles W. Scharer

Retired President & CEO, Harveys Casino Resorts  
Stateline, Nevada

### Executive Officers

#### John Farahi

Co-Chairman of the Board, Chief Executive Officer  
and Chief Operating Officer

#### Bob Farahi

Co-Chairman of the Board and President

#### Ben Farahi

Co-Chairman of the Board, Chief Financial Officer,  
Secretary and Treasurer

## STOCKHOLDER/CORPORATE INFORMATION

Monarch Casino & Resort, Inc. common stock is traded  
on the Nasdaq Stock Market<sup>SM</sup> under the symbol MCRI.

The Annual Meeting of Stockholders of Monarch Casino  
& Resort, Inc. will be held Thursday, May 26, 2005,  
at 10:00 a.m. local time at the Atlantis Casino Resort,  
3800 South Virginia Street, Reno, Nevada 89502.

### Transfer Agent

American Stock Transfer and Trust Company  
40 Wall Street, New York, New York 10005

Stockholder address changes and inquiries regarding stock  
certificates should be directed to:

American Stock Transfer & Trust Company,  
40 Wall Street, New York, New York 10005

### Corporate Counsel

Kummer Kaempfer Bonner & Renshaw  
Reno & Las Vegas, Nevada

### Subsidiary

Golden Road Motor Inn, Inc.

### Investor Relations

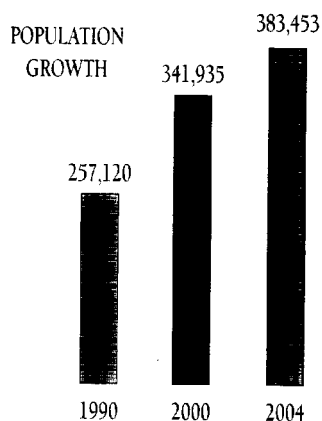
Karl Brokmann

1175 West Moana Lane, Suite 200  
Reno, Nevada 89509  
(775) 825-3355

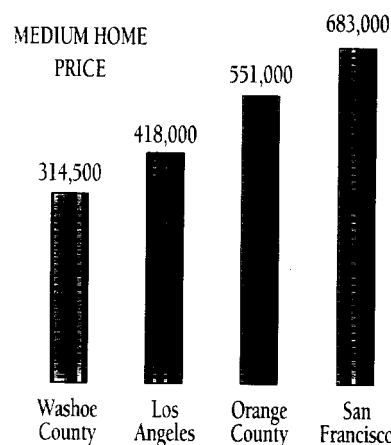
### Websites

[www.monarchcasino.com](http://www.monarchcasino.com)  
[www.atlantiscasino.com](http://www.atlantiscasino.com)

## Reno Statistics & Facts



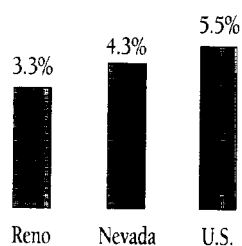
Nevada State Demographer



Northern Nevada Regional Multiple Listing Service, 2004

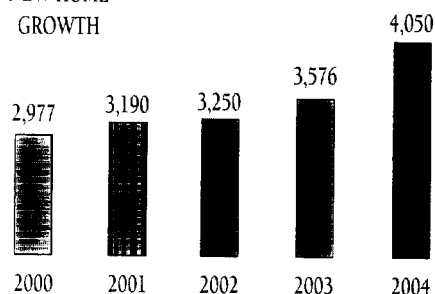
### Low Unemployment

2004 UNEMPLOYMENT RATES



Bureau of Labor Statistics

NEW HOME GROWTH



Grubb & Ellis, Bureau of Business and Economic Research

### People Moving To Reno Because

- 1) #6 Among 89 mid-sized cities for doing business. *Inc. Magazine*
- 2) Reno-Tahoe area is the #1 destination in U.S. for outdoor activities. *Rand / McNally*
- 3) Ranked the 9th Best Place to Live in the United States. *Cities Ranked and Rated*
- 4) Reno is among the Top 150 cities...combining high quality of life with fulfilling job opportunities. *Life 2.0* by the publisher of *Forbes*
- 5) Nevada is among the nation's "wealthiest-friendliest states"...with no state income tax, Nevada ranks 3rd for families and 9th for retirees. *Bloomberg Personal Finance Magazine*

### South Reno

Fast growing, more affluent:

- Population growth: 8.3%\* average since 2000.
- Average household income \$61,295\*\* vs. \$44,591 citywide.

\*Nevada Small Business Development Center

\*\*Claritas Inc.